Annual Report 2011

BANK OF KIGALI
Financially transforming lives

www.bk.rw


Bank of the Year 2009, 2010, 2011
The Banker
Bank of the Year 2011
RWANDA
Company of the year 2011
Bank of Kigali
Best Bank in Rwanda 2009,2010,2011
Company of the Year 2011

OUR VISION

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

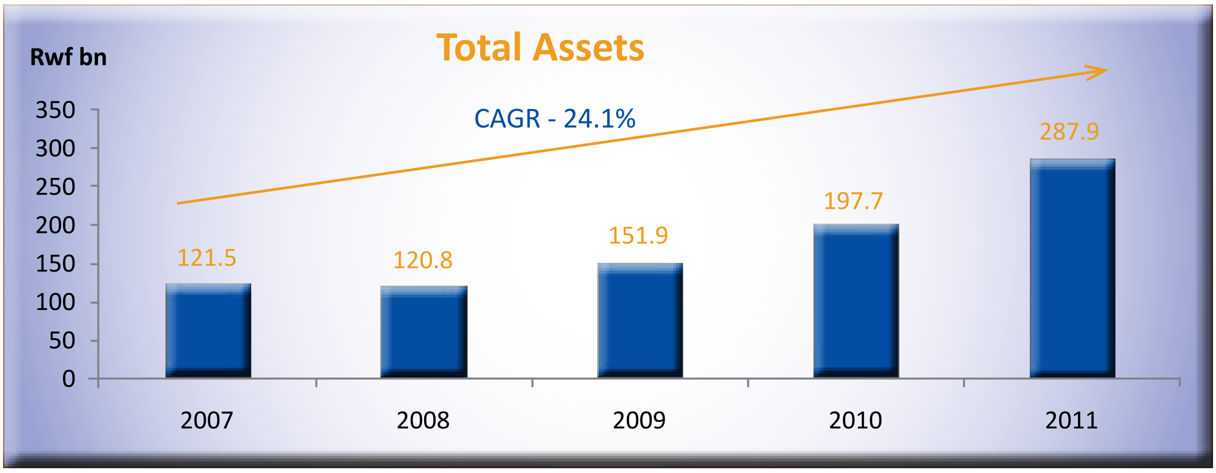
OUR MISSION

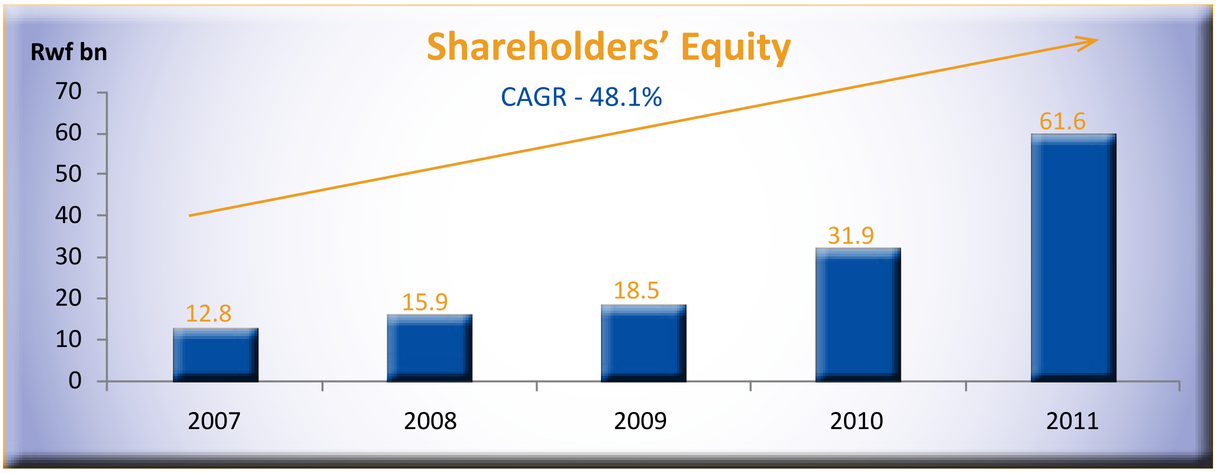
Our mission is to be the leader in creating value for our stakeholders by providing the best financial services to businesses and individual customers, through motivated and professional staff.

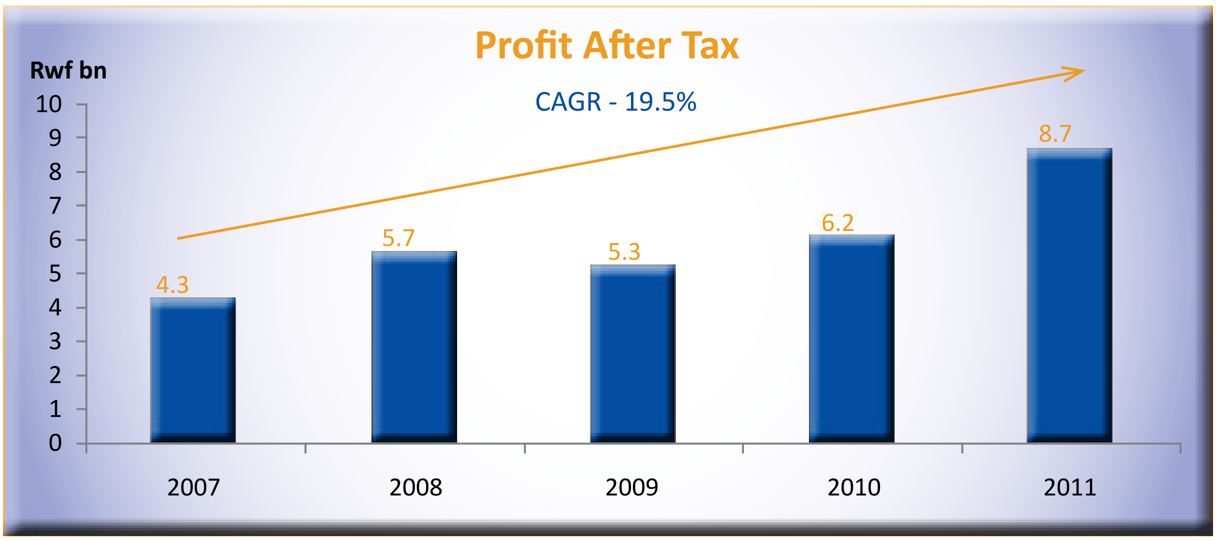
OUR VALUES

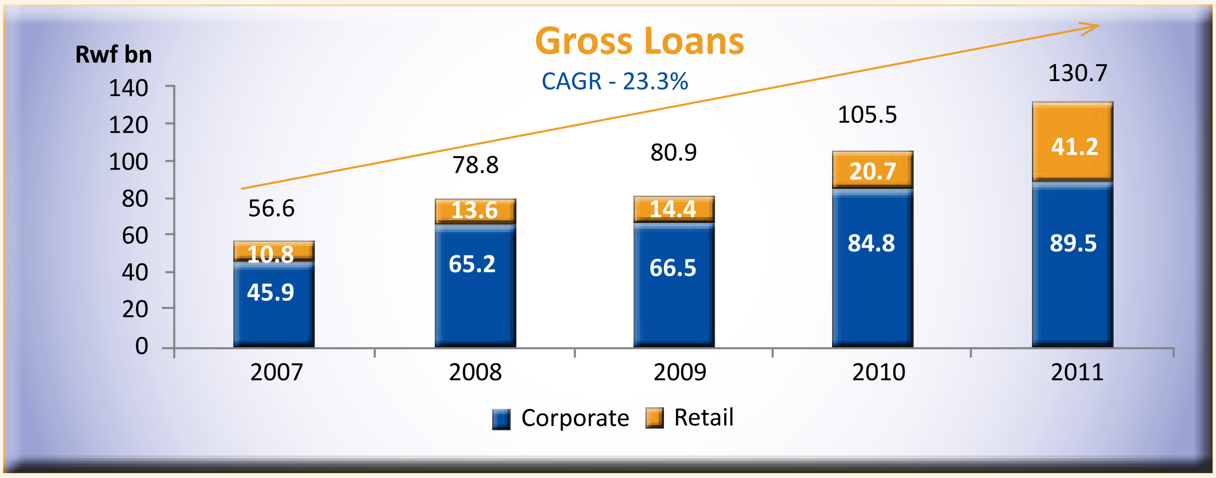
- *Customer focus*
- *Integrity*
- *Quality*
- *Excellence*

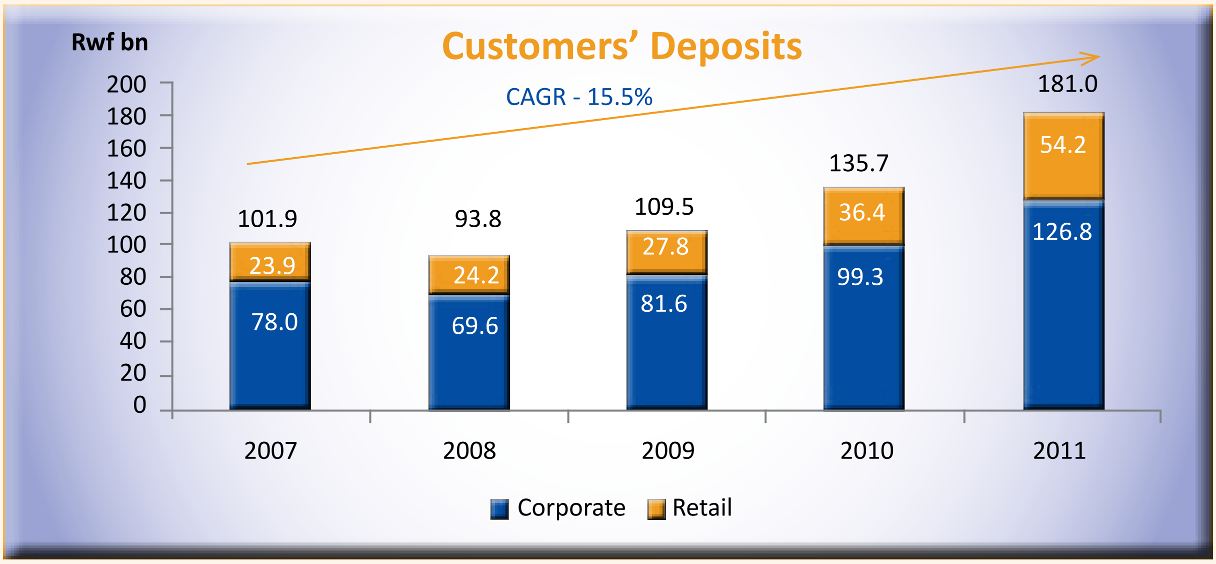
Table of Contents

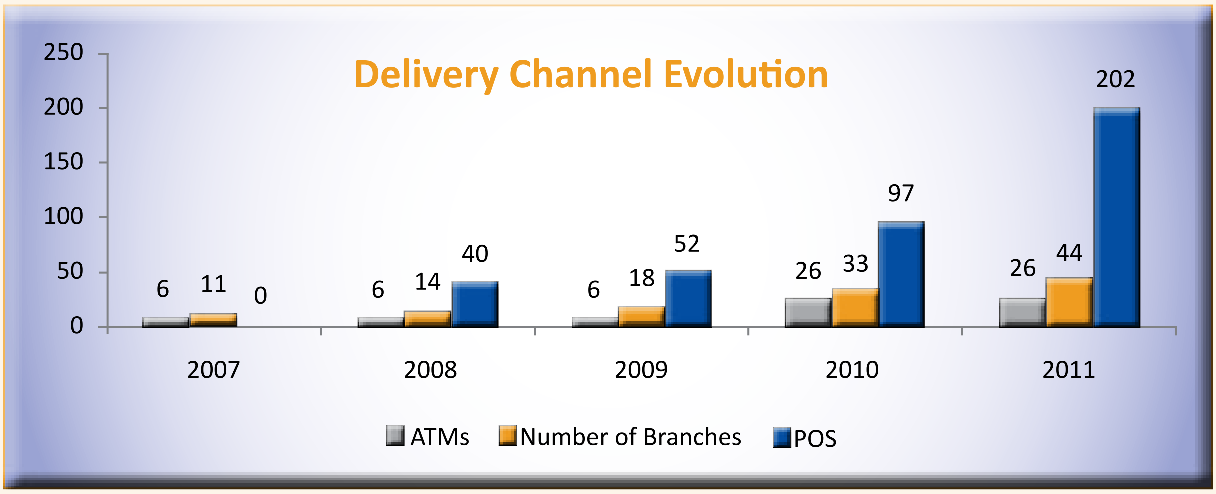

Total Assets
Rwf bn
CAGR - 24.1%
350
300
250
200
150
100
50
0
121.5
120.8
151.9
197.7
287.9
2007
2008
2009
2010
2011


Shareholders' Equity
Rwf bn
CAGR - 48.1%
70
60
50
40
30
20
10
0
12.8
15.9
18.5
31.9
61.6
2007
2008
2009
2010
2011


Profit After Tax
Rwf bn
CAGR - 19.5%
10
9
8
7
6
5
4
3
2
1
0
4.3
5.7
5.3
6.2
8.7
2007
2008
2009
2010
2011


Gross Loans
CAGR - 23.3%
Rwf bn
140
120
100
80
60
40
20
0
56.6
10.8
45.9
78.8
13.6
65.2
80.9
14.4
66.5
105.5
20.7
84.8
130.7
41.2
89.5
2007
2008
2009
2010
2011
Corporate
Retail


Customers' Deposits
CAGR - 15.5%
Rwf bn
200
180
160
140
120
100
80
60
40
20
0
101.9
23.9
78.0
93.8
24.2
69.6
109.5
27.8
81.6
135.7
36.4
99.3
181.0
54.2
126.8
2007
2008
2009
2010
2011
Corporate
Retail


Delivery Channel Evolution
250
200
150
100
50
0
6
11
0
6
14
40
6
18
52
26
33
97
26
44
202
2007
2008
2009
2010
2011
ATMs
Number of Branches
POS

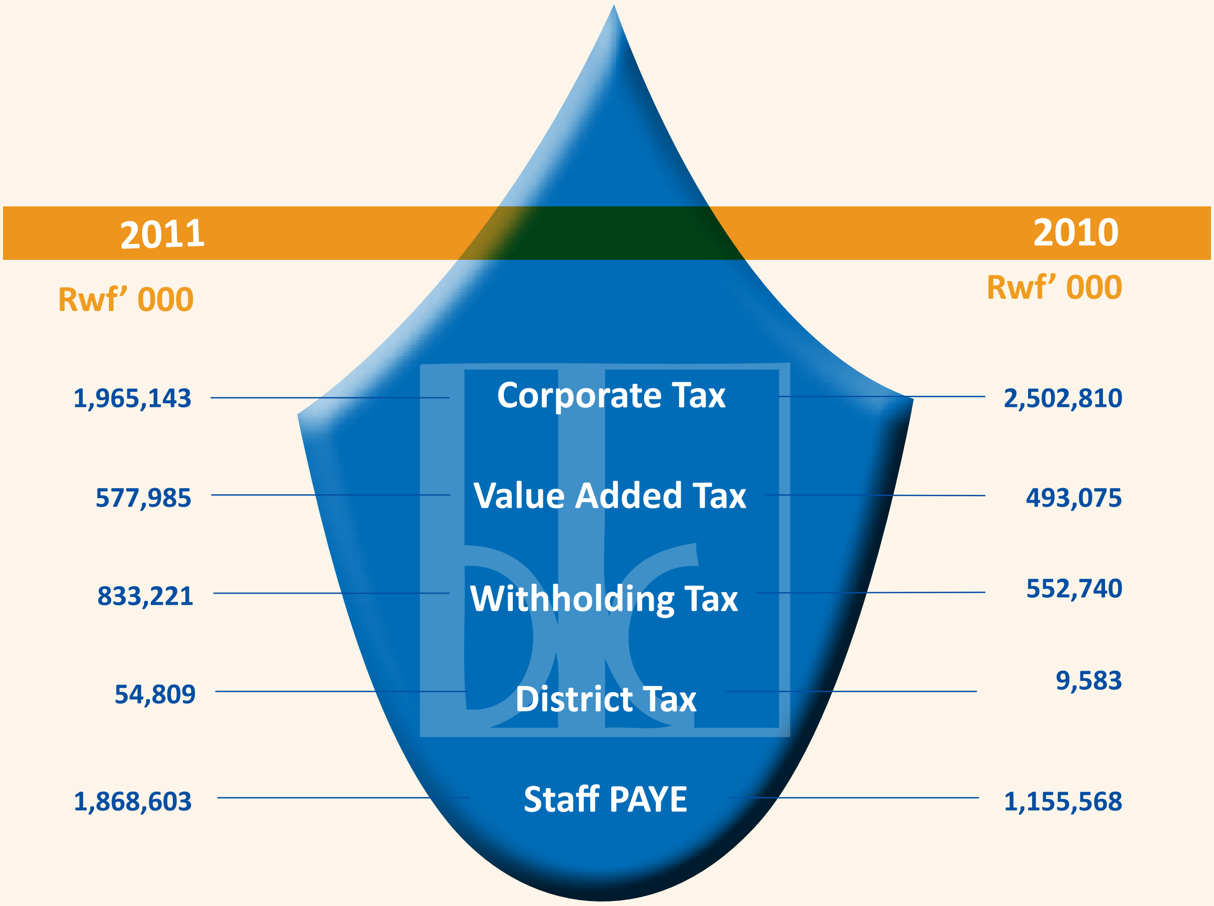
Key Performance Ratios

	2011	2010
Profitability		
Return on Average Assets	3.6%	3.5%
Return on Average Equity	18.6%	24.5%
Net Interest Margin	8.4%	8.3%
Loan Yield	16.9%	15.8%
Interest Expense/Interest Income	26.8%	25.6%
Cost of Funds	3.1%	2.8%
Efficiency		
Cost/Income Ratio	48.4%	47.5%
Costs/Average Assets	5.9%	5.8%
Personnel Costs/Total Recurring Operating Costs	51.8%	52.3%
Personnel Costs/Average Total Assets	2.9%	3.0%
Personnel Costs/Total Operating Income	25.1%	25.0%
Net Income/Total Operating Income	29.5%	29.2%
Liquidity		
Net Loans/Total Assets	42.8%	51.3%
Liquid Assets / Total Deposits	60.8%	43.9%
Interbank Borrowings / Total Deposits	9.5%	12.2%
Short-term Liquidity Gap	43.0%	11.9%
Gross Loans / Total Deposits	65.3%	68.3%
Asset Quality		
NPLs / Gross Loans	8.3%	8.5%
NPL Coverage Ratio	69.1%	45.8%
Large Exposures / Gross Loans	8.8%	14.3%
Cost of Risk	3.8%	2.0%
Leverage (Total Liabilities/Equity), Times	3.7	5.2
Capital Adequacy		
Core Capital / Risk Weighted Assets	28.1%	18.7%
Total Qualifying Capital / Risk Weighted Assets	29.1%	20.1%
Off Balance Sheet Items / Total Qualifying Capital	363.1%	351.2%
Large Exposures / Core Capital	21.3%	61.1%
NPLs less Provisions / Core Capital	3.0%	19.7%
Market Sensitivity		
Forex Exposure / Core Capital	11.7%	11.5%
Forex Loans / Forex Deposits	0.8%	1.0%
Forex Assets / Forex Liabilities	105.3%	106.7%
Selected Operating Data		
Full Time Employees	602	454
Assets per FTE (RwF billion)	0.5	0.4
Number of Active Branches	44	33
Number of ATMS	26	26
Number of POS Terminals	202	97
Number of Retail Current Accounts	73,716	39,741

Value added statement

Value Added Statement in Rwf' 000	2011	%	2010	%
Interest, commissions and other revenues	35,530,550		25,329,695	
Interest paid to depositors and costs of other services	(13,907,872)		(9,016,781)	
Wealth created	**21,622,678**		**16,312,914**	
Distribution of wealth				
Employees				
Salaries, wages and other benefits	5,201,832	24%	3,882,773	24%
Government	5,299,760	25%	4,713,776	29%
Shareholders				
Dividends paid to shareholders	-		-	
Retentions to support future business growth	**11,121,086**	**51%**	**7,716,365**	**47%**
Retained surplus	8,688,765		6,178,582	
Depreciation and amortisation	2,432,321		1,537,782	
Wealth distributed	**21,622,678**		**16,312,914**	

TAXES PAID



Lado Gurgenidze
Chairman of the Board

Dear fellow Shareholders of Bank of Kigali,

This year's performance was exceptionally good. Your bank managed to grow its Net Income by 40.6% (compared to the growth by 30.6% in 2010). This accelerating growth was achieved despite the challenging global environment in the second half of 2011, and our management and staff are to be congratulated for this achievement. Despite the rapid growth, we managed to maintain cost discipline, with Cost-Income Ratio of 48.4%, largely unchanged from 2010, and kept our profitability intact, achieving ROAA of 3.6% in 2011, a slight improvement on 2010.

Perhaps the best news is that we have much to look forward to, as our future growth and development appears well funded. In 2011, we managed to procure two long-term credit lines from International Financial Institutions, pulling ahead of the competition in this respect and, on 1 September 2011, your Bank was floated on the Rwanda Stock Exchange. With the capital raised in the IPO, your Bank's equity stood at the year-end 2011 at RwF 61.6 bn (US$ 101.9 mln), accounting for approximately 40.8% of the banking sector equity. In 2011, we also achieved market share gains by Total Assets (32.4%, up from 27.4% in 2010) and Customer Deposits (28%, up from 25.9% in 2010).

Despite the high level of transactional activity in 2011, your management team did not let itself be distracted from executing our strategy of building a leading universal bank with ubiquitous retail presence in Rwanda. Our branch, ATM and POS terminal footprint has been expanded, and a lot of effort was directed at modernizing our retail offering and electronic banking channels. Product innovation continued as well, as the foundation was laid for the private banking and micro lending lines of business.

Looking ahead, rest assured that the Board and management of your bank will remain focused on delivering profitable growth as we complete the modernization of your bank. I am excited that we enhanced our middle management layer by recruiting several high-calibre professionals locally and regionally, who have joined the ranks of our talented staff. Now that we are a publicly traded company with a 45% free float, it is incumbent upon us to further raise our game in terms of strategy execution and shareholder communications. Finally, I encourage you to vote for the dividend payout policy recommended by the Board, which amounts to paying out 50% of our Net Income in 2011, 2012 and 2013 as dividends – your bank can afford it, without any adverse impact on its growth prospects.

I look forward to welcoming you at our upcoming Annual General Meeting of Shareholders and to reporting on our continued progress in next year's annual report.

Lado Gurgenidze
Chairman

James Gatera
Chief Executive Officer

Introduction

I am pleased to announce the Bank's continued strong and sustained growth in our financial performance and balance sheet in 2011. The Bank increased its profit after tax by 40.6% to Rwf 8.7 billion and grew total assets by 45.6% to Rwf 287.9 billion. The growth was as a result of continued branch expansion and investments in alternative delivery channels, strong liquidity position, funding sources and increased focus on retail banking.

Sustained strong market positioning

Bank of Kigali has continued to dominate the Rwandan banking sector. With total assets of Rwf 287.9 billion, the Bank accounts for 32.4% of the total banking assets. We also maintain the leading position in the market for total customer deposits, total performance, and total net loans. The Bank accounts for 29.4% of total net loans in the market. The growth in loans was supported by strong deposit market share of 28.0%. We managed to stay at the top because of our customers' confidence and undivided focus on their needs.

Review of financial performance

In 2011, our profit after tax increased by 40.6% to Rwf 8.7 billion. This was mainly due to the growth in our Total Operating Income which was Rwf 29.5 billion, up 39.3% from 2010. The growth in operating income was driven by a 36.2% growth in Net Interest Income which reached Rwf 16.6 billion. Non-interest Income also performed well growing by 43.5% to reach Rwf 12.9 billion driven by the FX trading which achieved a 45.7% growth rate to reach Rwf 7.6 billion. Fees and commission also grew by an impressive 43.2% and amounted to Rwf 4.3 billion.

Our Total Operating Expenses grew by 41.3 % and reached Rwf 14.3 billion. This increase has put pressure on our Cost/income ratio which moved from 47.5% to 48.4% in 2011.

Net Provision for non performing loans increased by 91.2% to Rwf 4.5 billion.

Review of financial position

Our Balance sheet saw a considerable growth of 45.6% in 2011 reaching Rwf 287.9 billion. The growth in total assets was supported by the increased lending which saw our net loans increase by 21.4% to RwF 123.1 billion.

The growth in our loan book was driven by retail consumer lending which now accounts for 31.5% of gross loans up from 19.6% as at December 2010. The increase in the ratio of retail loans emphasizes our commitment to growing our retail book as competition for Corporate, SMEs and Non Business activities increases. The growth in our corporate loan book was 5% as we undertook to reduce the exposures of some of our large borrowers in order to effectively manage concentration risk.

On the liability side, the growth in customer deposits was 33.4% reaching Rwf 181.0 billion. This growth was driven by gains from our branch expansion strategy. Overall, the continued loyalty and confidence of our customers enabled us to consolidate our position as the market leader in lending and deposits in the banking sector.

The capital raised in the IPO shored up the Bank's capital, increasing Shareholders' Equity by 93.2% to Rwf 61.6 billion from Rwf 31.9 billion in 2010. The Bank remains the best capitalized in the market. The core capital to total risk weighted assets increased from 18.7% to 28.1%. The total capital to total risk weighted assets ratio rose from 20.1% to 29.1%.

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 investors.

Risk Management and Compliance

During the year under review, the Bank saw an improvement in asset quality. NPLs as a percentage of Gross Loans stood at 8.3%.

This was due to improved credit risk management as a result of the Bank's revised Credit Policies and Know Your Customer (KYC) Policies. The Bank also began to benefit from our credit risk management approach which was re-engineered in 2010 to focus on file and case management.

There was an overall improvement in the credit risk environment as the sector began to reap dividends from reforms in the Mortgage Law and Land Registry to fast track provision of title deeds and foreclosures. In addition, the Credit Reference Bureau is increasingly becoming an important tool in assisting us to assess credit risk. Going forward we expect it will become a more effective tool as it signs up all micro finance institutions, utility companies, SACCOs and insurance companies.

The Bank also undertook to more prudent provisioning to increase our coverage ratio. In 2011, we made IFRS provisions of Rwf 7.5 billion, to bring the coverage ratio to 69.1% compared to 45.8% in 2010.

As part of our strategic plan, the Bank continues to invest in activities that increase education and awareness in risk management and compliance among our staff in order to enhance the risk management culture to the level of regional and international banks.

Human capital development initiatives

Our employees are our greatest asset and the biggest drivers of the Bank's sustained performance. We currently boast a staff complement of 602 and are committed to creating a working environment that develops and equips all staff with the skills and capabilities to serve our customers effectively.

The Bank continues to invest in enhancing their skills particularly in retail banking as we pursue our strategic objective to serve over 500,000 clients in the coming years. Through our partnership with John Scholl, a renowned international customer service guru, we embarked on the second module of service quality training and had 300 staff trained in swift service delivery and showing leadership at work. A total of 80 staff was trained in technical areas of front office and back office functions. The Bank also embarked on improving the soft skills of its staff particularly in communication and had 85 staff trained in negotiations, public speaking and effective communications.

Our product and service innovations

During the year, we focused on increasing our product and service offering in both corporate and retail banking in order to meet the changing needs of our customers. Our biggest achievement was the launch of our mobile banking service which gives customers the ability to check their balances and order cheque books, in addition to purchasing prepaid electricity, prepaid TV and intra-bank money transfer in addition to giving customers with account information and daily exchange rates.

In the card business, the Bank started issuing internationally accepted VISA Electron Debit cards in addition to the local branded cards from R-SWITCH and the prepaid ZIPP Card which is targetted at the lower income earners.

Investment in technology driven alternative delivery channels

In 2011, we continued to invest in technological developments to meet our customer demands and invested in making our ATMs and Points of Sales (POSs) interoperable with both local debit cards and international cards.

Our ATMs and Points of Sales (POSs) are able to accept not only R-Switch cards and VISA Cards but Diners Club and China Union Pay (CUP) cards as well. Going forward, progress is underway to ensure that they also start accepting American Express as well. The increased interoperability of our channels will encourage additional tourism spend in the country.

Future aspirations for 2012

Our theme for 2012 will be to continue to

"Bring financial services closer to the people"

This will be realized through continued innovations in self services products such as mobile banking based products, card based products and agency banking.

The Bank will continue to grow its branch network and 12 branches are expected to be opened in 2012. In addition, we expect to see our footprint extend across our borders through representative offices in selected neighbouring countries.

We will continue to expand our self-service channels especially through mobile phones which have proven to be an effective delivery channel because of their ubiquity.

On the card business front, the Bank will begin to issue the VISA Classic, VISA Gold and VISA prepaid cards and launch e-commerce services. These cards will enable our customers to make purchases internationally and online. In addition, we will grow our PoS and ATM network to support the growth in the card business and we expect to deploy 60 more ATMs with added functionalities to reduce footfall in the branches.

The Bank will also focus on developing its new business segments particularly micro lending as we strive to improve access to finance for the segments at the lower end of the pyramid. The service was launched in 2011 and was pioneered with 3 products aimed at women, youth and senior citizens.

For our High Net Worth and VIP clientele, the Bank has launched its Premier Banking branch at the ultra-modern Kigali City Tower. BK Premier is the ultimate convenience service centre for these clients.

The Bank will continue to strive to deliver superior customer service and will invest heavily in training and development of our staff and processes to ensure that we are cost effective.

In 2012, we will launch a 24 hour call centre to improve customer feedback processes and customer relationship management.

Funding our growth strategies

As is the case with all banks across Rwanda and the region the Bank's long term loan assets are mainly funded by mobilized short term deposits. This results in increased maturity mismatch and interest rate risk for the banks. In order to diversify our source of funding, the Bank took to raise capital in the capital markets and successfully raised Rwf 20.7 billion in its IPO in 2011. The additional capital will be used for channel expansion, increased lending and to reduce our asset/liability mismatch.

In addition to the long term credit line from the European Investment Bank worth € 5 million, of which we are nearing complete drawdown, the Bank also signed two additional long term credit lines. The credit lines worth $12 million and $ 20 million are from the African Development Bank and the French Development Agency and will further improve the Bank's liquidity and diversify our source of funds. These credit lines are expected to be drawn down in 2012.

Conclusion and acknowledgement

We anticipate that the market place will become increasingly competitive in the coming years.

We shall continue to engage in activities that improve efficiency of our business and maintain our customer service promise to meet and exceed our customer expectations.

We aim to continue to deliver shareholder value for our new and existing shareholders and grow our profits and assets base. Our shareholders continue to support our business growth strategies and have decided to retain 50% of the profits in the Bank as we strive to bring financial transformation in Rwanda.

Special thanks also go to our loyal customers who continued to entrust us with their business during the year. We recognize that you are the reason we are in business, and we value your self-assurance in Bank of Kigali and its Management.

I would also like to thank the Board of Directors for their guidance and direction and for working very closely with Management in order to realize the opportunities abound and to grow our business as we take humble investment steps towards attainment of the country's Vision 2020.

I am also grateful to all staff, without them this impressive performance and assets growth would not have been possible. Their hard work, dedication and loyalty are invaluable in our pursuit of excellence in Rwanda's financial sector and I am confident we will all strive to deliver in the same spirit in 2012 and beyond.


UGANDA
DEMOCRATIC REPUBLIC OF THE CONGO
UNITED REPUBLIC OF TANZANIA
BK
Burera
Gatuna
Gicumbi
Nyagatare
Musanze
Gakenke
Rurindo
Gatsibo
Rubavu
Ngororero
Kamonyi
Rwamagana
Kayonza
Kicukiro
KIGALI
Gasabo
Bugesera
Karongi
Muhanga
Rutsiro
Ruhango
Rusumo
Nyamagaba
Nyanza
Rusizi
Nyamasheke
Huye
Gisagara
Nyaruguru

Corporate Social Responsibility has assumed a great importance in the corporate world, including the banking sector. Bank of Kigali continues its visible trend of promoting socially responsible policies and environment friendly budgeting, lending and investment practices. The Bank has actively invested and highlighted the importance of CSR and has put in place a suitable and appropriate plan of action towards helping the cause of sustainable social and economic development. Recognizing the importance of CSR, the Board approved a policy to devote 1% of the annual net operating income to CSR activities.

The Bank's CSR principles and activities are built on the foundation of four pillars, which include promotion of education especially the needy members of the society, health activities, sustainable environment protection, and poverty alleviation. 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.

Pillar 1: Improving access to education

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

The Bank, through its partnership with the Imbuto Foundation, provides scholarships to 200 students from needy backgrounds. The Bank also supports of the School of Finance and Banking (SFB) and its various initiatives including sponsoring prizes awarded to their best students in order to encourage academic excellence within the student community.

The Head of Corporate Banking presents a cheque to the Rector of the School of Finance and Banking in support of the Best students at the school.

The Bank also pledged support to the Capital Markets University Challenge. The University Challenge was organized by the Capital Markets Authority to increase awareness of Rwanda's capital markets through a competitive essay writing competition and television quiz show among 10 participating tertiary institutions nationwide.

Pillar 2: Promoting Community Health

The Bank acknowledges the need for a healthy society in order for Rwanda to achieve its Vision 2020. In 2011, the Bank maintained its 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.

During the year, in recognition of the increasing incidence of cancer in our society, the Bank supported the Ulinzi Walk, whose aim was increasing awareness of breast and cervical cancer by raising funds to support education, screening, and treatment of these cancers and to support outreach programs for families impacted by this disease.

Pillar 3: Promoting Environmental sustainability

In 2011, the Bank began to implement its Environmental and Social Policy which was approved in late 2010. The main objective of this policy is to ensure that the Bank finances projects which have minimal adverse impacts on the environment while ensuring that those having potentially major adverse environmental and social impact are accompanied by adequate mitigation measures.

In line with the general objective, the Bank specifically endeavours to ensure that:

- There are guidelines and procedures in place to assess the environmental impact of all projects before commitments and;
- Compliance to these procedures and guidelines are adhered to.

In addition, the Bank in its ordinary course of business is consciously mindful of its environmental obligations both internally and externally and has invested in the following initiatives during the year:

Saving Trees by introducing paperless means of communication in business

Since the end of 2010, the Bank has introduced electronic based bank statements and use of electronic channels such as mobile and internet banking for the customers to access their accounts without printing statements. These

initiatives are designed to save paper which helps maintain Rwanda's clean environment. These initiatives also extend to the awareness campaigns to sensitize to our customers and staff on the need for environmental sustainability. The Bank will continuously invest in promoting paperless business operations and communication.

Mountain Gorilla conservation

The Bank maintained its partnership with the Rwanda Development Board in supporting the annual gorilla naming, "Kwita Izina" ceremony. Rwanda's mountain gorillas contribute almost 90% 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.

Employee-led Participation in community work, *Umuganda*

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.

In 2011, our staff participated in the following activities as part of its community work:

- Planting of trees to enhance afforestation and re-forestation;
- Creating terraces to eliminate soil erosion in mountainous agricultural arable land and;
- General cleaning of the city.

Pillar 4: Elimination of poverty

The Bank's approach to reducing poverty is two pronged: We continue to improve access to banking services for the underserved rural population as well as support national pro-poor programmes both financially and actively.

Improving access to banking services to the underserved rural population

As part of our branch expansion strategy, Bank of Kigali is determined to open branches in rural areas in order to act as a catalyst for economic development in those areas. In 2011, we opened 7 branches in rural areas.

The Bank further introduced Community Oriented products targeting mainly the unbanked and underserved. The three products are part of the Bank's strategy to extend financing to three population groups – women, youth and senior retired citizens – which have historically been underserved. Moreover, the products combine a savings and loans products in recognition of the need to improve savings culture in Rwanda as well as limited access to finance.

Girinka programme

In order to improve the livelihoods of rural families, the Bank continued its support for the national *Girinka* programme also known as *One cow per poor family*. The programme is aimed at improving livelihoods through the reduction of malnutrition as well as increasing household incomes by providing families with an additional source of income.

Promoting decent housing: *Anti-Nyakatsi* campaign

In the year under review, the Bank continued its dedication to promote decent housing. In this regard, we continued to participate in the national "Anti-Nyakatsi" campaign at provincial level. In addition our staff participated in building and creating decent housing for a genocide survivor in Gasabo district.

Conclusion

In 2012, the Bank will continue to implement a robust CSR strategy. The Bank aims to form more strategic alliances with established organizations whose work is focused in any areas encompassed by our CSR strategy. We intend to increase the number of employee-led CSR initiatives to promote the Rwandan culture of community-led development. We will also continue to promote integration of CSR principles in the Bank's day-to-day operations.

Bank of Kigali is committed to upholding high standards of Corporate Governance in compliance with the National Bank of Rwanda's regulations on Corporate Governance, Rwanda's Law relating to companies, the Banking Law as well as the Capital Markets Authority.

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 4 May 2011, the shareholders resolved to split the shares 1:11,000. 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 Bank's Shareholding as at 31 December 2011.

Shareholder	Number of Shares	Percentage of Issued Shares
Government of Rwanda	198,534,600	29.75%
Rwanda Social Security Board (RSSB)	181,328,700	27.17%
Other State Owned Entities	687,900	0.10%
Local Institutional Investors	16,511,700	2.47%
Regional Institutional Investors	30,030,400	4.50%
International Institutional Investors	120,121,800	18.00%
Employees & Directors	7,200,000	1.08%
Retail Investors	112,921,800	16.92%
Total	**667,337,000**	**100.00%**

Board's responsibilities

The Board of Directors is responsible for providing leadership through oversight and guidance on key strategic, risk management and internal control issues. The Board also ensures that Management conducts its business and operations with integrity and in accordance with best corporate governance practices based on transparency, accountability and responsibility. It also ensures compliance with relevant laws and regulations and risk management as the Bank balances the interests of the various stakeholders. In order to achieve this, the Board has established a Board Charter to guide its functions. The Board meets on a quarterly basis or more frequently as the business demands. The Board has also appointed four sub-committees to assist in achieving its mandate.

The Board also conducts a self evaluation exercise in compliance with the highest international standards which is submitted to the Central Bank. In 2011, the Board held six meetings. The table below indicates the director's attendance of board and board committee meetings.

Directors' attendance in Board and Board Committee meetings

Structure	Category	Number of Board Meetings	Audit & Risk committee	Credit Committee	ALCO Committee	Nominations & Remuneration Committee
Number of Meetings held		6	4	11	4	2
Lado Gurgenidze	Non-executive	6				
Sudadi S.Kayitana	Non-executive	6	4	9		
Caleb Rwamuganza	Non-executive	6		10	4	
Apollo M. Nkunda	Non-executive	5	3			2
Marc Holtzman	Non-executive	4				
Dativa Mukeshimana	Non-executive	6	3		4	
Alphonsine Niyigena	Non-executive	6	3	10		
Perrine Mukankusi	Non-executive	5			3	2

During the year, eight independent non-executive directors served on the Board. Mrs. Perrine Mukankusi resigned from the Board on 15 October, 2011.

Composition of the Board of Directors

Directors are appointed by the Shareholders on recommendation from the Minister of Finance and Economic Planning. In accordance with the Bank's Memorandum and Articles of Association, the appointments are ratified at the next Annual General Meeting (AGM). The Directors are also approved by the National Bank of Rwanda as a regulatory requirement.

The Board comprises two non resident directors with extensive expertise in international banking practices as well as six resident directors including a professional accountant, a practicing lawyer, 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.

Board Committees

In line with the BNR guidelines 06/2008 on Corporate Governance, the Board has four Board Committees, each with terms of reference, to support the Board in performing its functions.

Credit Committee

The committee comprises of three independent non-executive directors who meet monthly or more frequently as its business demands. 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.

Audit Committee

This is the principal Board Committee that comprises of four independent non executive board members and meets on quarterly basis or more frequently as its business demands. 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.

Risk Committee

This Committee comprises of four independent non executive board members and meets on quarterly basis or more frequently as its business demands. The mandate of the Risk management Committee is to ensure that the Bank's risk management policies and procedures are updated to ensure that the risks are properly tackled, effectively controlled and managed.

Assets-Liability Management Committee

The Board Asset-Liability Management Committee comprises of three independent non-executive directors and meets on quarterly basis or more frequently as its business demands. It 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 mitigates in compliance with the Bank's policies and Central Bank guidelines.

Nominations and Remuneration Committee

The Nominations and Remunerations Committee is composed of three independent non-executive directors and meets once a year or more frequently as its business demands. It is responsible for the appointment of and remuneration of the Board Members 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
- Assets-Liability Committee
- Human Resources Committee
- Procurement Committee

Disclosures

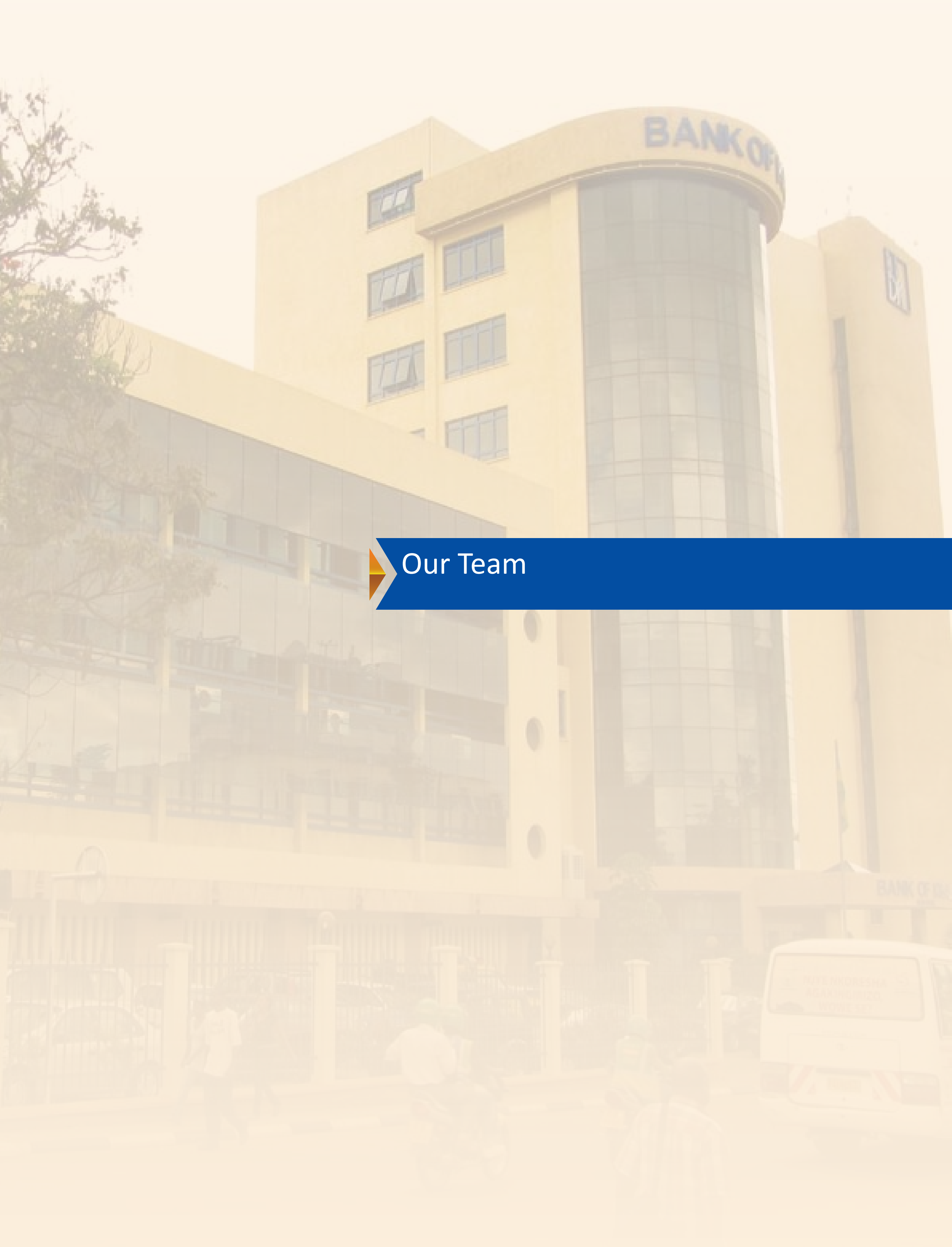
Related Party Transactions

During the financial year 2011 there were no materially significant transactions entered into between the Company and its promoters, directors or the management or other related parties that may have potential conflict with the interests of the Company at large.

An Employee Share Ownership Plan (ESOP) was introduced during the Initial Public Offer and 7,200,000 shares were allocated to the Directors and Employees.

Statutory Compliance, Penalties and Strictures

The Company 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 also began to comply with the requirements of the Capital Markets Authority and the Rwanda Stock Exchange. No penalties or restrictions have been imposed on the Company by these authorities.



Our Team


BANK OF KIGALI
Financially transforming lives
PREMIER

Lado Gurgenidze, Chairman

Lado Gurgenidze is a career banker who after a decade spent at several investment banks in Eastern Europe and London returned to his native Georgia in 2004 and spearheaded, as Executive Chairman and CEO, a turnaround of Bank of Georgia (LSE: BGEO). During Lado's three-year tenure, the bank's total assets and net income grew 760% and 1,563%, respectively. As its market share grew from 18% to 34%, Bank of Georgia became the leading universal bank in Georgia and the region with market capitalization exceeding US$900 million at the time of Lado's departure (up from US$30 million at the time of his arrival).

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 aggressive privatisation and liberalisation policies.

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 and co-chairs the Emory Center for Alternative Investments. In October 2009, he was invited to join, as Chairman, the Board of Bank of Kigali, the largest bank in Rwanda.

In September 2009, Lado established, together with Dinu Patriciu, Liberty Investments, an investment company focusing on financial services institutions in frontier markets with low corruption, low taxes and open economies. In the same month, Liberty Investments announced the acquisition of a controlling equity interest in Liberty Bank, which has the largest client base in Georgia, serving some 1.4 million clients and a branch network of 274 branches.

He is a Georgian and British citizen and received his MBA from Goizueta Business School of Emory University in 1993, following undergraduate studies at Middlebury College and Tbilisi State University.

Sudadi S. Kayitana, Director

Sudadi Kayitana is a practising Accountant with wide experience in Finance and Audit. He has served in the Public and Private sector, and 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).

He is a founding member of the Institute of Certified Public Accountants of Rwanda (ICPAR), He is an affiliate of the Association of Certified Chartered Accountants (ACCA) UK. He is also qualified professional of supply chain management and is a member of Institute of Purchasing and supply (MCIPS). He also holds an Associate degree in Accounting from the National University of Rwanda.

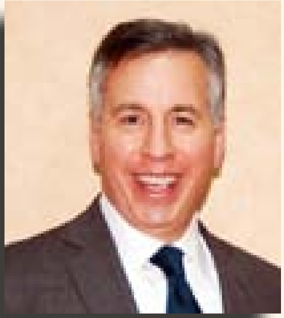
Caleb Rwamuganza, Director

Caleb Rwamuganza is the Deputy Accountant General, Treasury Management at Ministry of Finance and Economic Planning. 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.

Marc Holtzman, Director



Marc Holtzman is Vice Chairman of Barclays Capital. Prior to joining Barclays Capital in August 2008, Marc served as Vice Chairman of ABN Amro Bank. Previously, as co-founder and President of MeesPierson EurAmerica (a firm which was acquired by ABN Amro) and as Senior Adviser to Salomon Brothers, he lived and worked in Eastern Europe and Russia from September 1989 until October 1998.

Drawing on his early experience in helping develop Central Asia's finance sector, Marc was recently appointed by Kazakhstan's Prime Minister to serve on the Board of Trustees of The Almaty Regional Financial Centre. In addition, he serves as Chairman of Meridian Capital, and Non-executive Chairman of Indus, a leading Indian oil and Gas Company listed on London's AIM market.

Marc is widely recognized as a leading authority on economic and political developments in emerging markets. He also served as President of The University of Denver with approximately 10,000 students and as Colorado's first Secretary of Technology. He draws on almost three decades of political and public service in The United States. He holds a Bachelor of Arts Degree in Economics from Lehigh University.

Apollo M. Nkunda, Director

Apollo Nkunda is a practising Lawyer, and a Partner with Trust Law Chambers. He has over ten 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 founding member of the Centre for Arbitration and honorary counsel to the Kigali Golf Club.

Alphonsine Niyigena, Director

Alphonsine is Vice Chairperson of the Rwanda Private Sector Federation, Chairperson of the Union Investments Corporation (UIC), and Vice Chairperson of Liberal Professionals Chamber, one of the nine chambers of the Rwanda Private Sector Federation.

She also serves as the Board Chairperson of Military Medical Insurance, Board Member of Motor Guarantee Fund and Rwanda Institute of Administration and Management (RIAM).

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-Finance from Maastricht University, Netherlands.

Dativa Mukeshimana, Director

Dativa is the Executive Secretary for Duterimbere Asbl, a Women Entrepreneurial Association and a micro finance institution in Rwanda. Dativa has vast experience with programme management and financing of NGOs, especially gender related programmes.

She has managed institutional finances including resource mobilization and has managed human resources at operation and strategic levels.

Dativa holds a Bachelor's degree in Economics, with a major in Money and Banking from Kigali Independent University and an MSc in Project Management from Bujumbura University.

James Gatera, Chief Executive Officer

James Gatera has been the Managing Director and Chief Executive Officer of Bank of Kigali since 2007. Under his stewardship, Bank of Kigali has had sustained periods of profitability and market leadership across all key balance sheet metrics.

As a firm believer in increasing access to the unbanked in Rwanda, James is at the helm of executing the Bank's strategy to making banking services available and within the reach of the majority of Rwandans. He has spearheaded the Bank's aggressive branch expansion strategy as well as the Bank's continual roll-out of innovative products to reach the unbanked population. In 2011, James led the Bank through a successful Initial Public Offering to raise capital for the Bank's expansion strategy and Bank of Kigali became the second domestic company to list on the Rwanda Stock Exchange.

During his tenure, the Bank has been internationally recognized for its performance as the 'Best Bank in Rwanda by emeafinance and has been awarded the 'Bank of the Year' for Rwanda since 2009 by the Financial Times of London. The Bank has also been rated A+/A1 by the Global Credit Rating Agency of South Africa. In 2011, the Bank was further awarded the Company of the Year Award by the Kenya Institute of Management.

Over the years, James has accumulated vast experience in Corporate Governance and currently serves as a non-executive Chairman, and Director on various Boards including Commonwealth Business Council (CBC).

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

Previously, 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.

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 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. 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 an MBA in Strategic Management and a Bsc in Financial Services. He is also a Qualified Accountant and Chartered Banker and a Certified Trainer in Corporate Governance.

Flora Nsinga, Chief Shared Services Officer

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

Flora has been responsible for the growth in branch network and staff since 2008 and she was a focal point in managing the consultants charged with organisational reforms in 2009. She is also responsible for the growth of the branch infrastructure which has seen the Bank's branch network grow from 14 in 2008 to 44 in 2011. She has overseen the Bank's strategic human resources restructuring from a product driven structure to a customer focused structure. In addition, she has overseen the supply and demand side of the bank's human capital with staff complement of 284 in 2008 and 602 in 2011.

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 he brings in a wealth of experience from financial advisory and assurance services gained from over 6 years post qualification experience with Ernst & Young and Deloitte. Prior to joining the Bank, John worked as an Audit Manager at Deloitte in the United Kingdom specialising in financial services.

John is responsible for overseeing the development and implementation of the strategic and statutory financial reporting information systems. He is also responsible for the management of funding requirements.

John holds a Bachelor's degree in Business Administration from Makerere University-Uganda, MBA-Accounting & Finance from Oxford Brookes University, UK and is a Fellow of the Association of Certified Chartered Accountants –UK (ACCA).

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 efficiently managing and overseeing the procurement process of the Bank as well as executing the bank expansion strategy since 2009.

Enock holds a Bachelor's Degree in Management from the National University of Rwanda.

Shivon Byamukama, Company Secretary & Head of Corporate Affairs

Shivon is the Company Secretary/ Head of Corporate Affairs Department. She joined the Bank from RwandAir where she served as the Company Secretary and Chief Legal Officer since 2009. During her time at RwandAir, she was instrumental in the negotiations for the acquisition of their new aircrafts and their financing agreements.

She joins the Bank with a wealth of experience in contract negotiations. Shivon has also worked with the International Criminal Court at the Hague and taught at Glasgow Caledonian University.

She holds a PhD in Law from Glasgow Caledonian University, a Diploma in Legal Practice from the Law Development Centre (LDC) Kampala Uganda and a Bachelor of Laws from Makerere University, Uganda.

Patrick Masumbuko, Head of Corporate Banking

Patrick is the Head of Corporate Banking Department. Prior to holding this position he was the Corporate Banking Manager. Patrick joined the Bank in 2011 with seven years experience from the Banking sector and private sector. He also held various positions in Non Governmental Organizations.

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.

Innocent Musominari, Head of 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 working within 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 holds a Bachelor's degree in Economics from the National University of Rwanda.

Adolphe Ngunga, Head of Retail Branch Network

Adolphe is the Head of Retail Branch Network, and has been in the Bank for over 10 years. Adolphe has held various positions in the Bank including Branch Management, Corporate Banking and Head of Retail Banking. He has been instrumental in driving growth of the Bank's retail customer segment across our expanding branch network.

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

Allan Mwangi, Head of Retail Credit Risk

Allan is the newly appointed Head of Retail Credit Risk. Prior to joining Bank of Kigali, Allan was a Director at Dhamana Africa; a consultancy firm engaged in providing financial consultancy and business advisory services.

He brings to the Bank vast experience in business planning, financial management, accounting, risk management and audit with over 16 years in the financial services industry gained from working in Equity Bank, Deloitte and Touche, Lonrho Africa Plc and ABN Amro Bank.

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 newly appointed Head of Consumer Banking and Product Development. Prior to joining Bank of Kigali, Moffat was a Senior Manager Risk Control Unit – Corporate Credit at Barclays Bank Kenya.

Moffat has been in the banking sector for 25 years and brings to the Bank a spectrum of skills and knowledge gained from his experience in Operations, Retail Banking, Card Business and Business 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).

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, having joined with over 14 years of experience in the industry. He has been instrumental in developing the Bank's IT capabilities through the computerization and networking of the branches and other distribution channels to support the growth of the Bank's distribution network.

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.

Gerald Nyangezi, Head of Internal Audit

Gerard heads 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, and Bachelor's of Accounting degree from Transkei University, Republic of South Africa. He is a Qualified Accountant and a member of the Association of Certified Chartered Accountants of United Kingdom (ACCA) as well as a member of Institute of Certified Public Accountants Rwanda (ICPAR).

Yves Gatsimbanyi, Head of Risk & Compliance

Yves has been the Head of Risk and Compliance since early 2010. Yves joined the Bank having served as a Bank Examiner at the National Bank of Rwanda for 10 years. Previously he has also held positions in 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.

Financial Reports

Principal Place of Business

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

Registered Office

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

Lawyers

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

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

Bankers

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

Company Secretary

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

Bank Auditors

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

The Directors have the pleasure in submitting their report together with, the audited financial statements for the year ended 31 December 2011 which discloses the state of affairs of the Bank.

1. Principal Activity

The Bank is a commercial bank that offers corporate and retail banking services and is licensed under the Laws and Regulations governing Banks in Rwanda.

2. Results

The results for the year are set out on page 37.

3. Dividend

The directors recommend a dividend payment of Rwf 6.5 per share (Rwf 4,344 million) for the approval of shareholders at the Annual General Meeting. (2010: Nil)

4. Reserves

The reserves of the Bank are set out on page 64, note 17.

5. Directors

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

Mr. Lado Gurgenidze	- Chairman
Mr. Marc Holtzman	
Mr. Caleb Rwamuganza	
Mrs. Perrine Mukankusi	- Resigned 15 October 2011
Mr. Apollo Nkunda	
Mrs. Alphonsine Niyigena	
Mrs. Dative Mukeshimana	
Mr. Sudadi Kayitana	

6. Auditors

Ernst & Young (Rwanda) SARL were appointed auditors of the Bank in 2008 and have rotated out in compliance with National Bank of Rwanda Regulations.

By Order of the Board

Company Secretary

29 March 2012

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with International Financial Reporting Standards and the requirements of 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 of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

....

Director

....

Director

29 March 2012
....

Date

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Kigali Ltd as set out on pages 36 to 88, which comprise the statement of financial position as at 31 December 2011, the income statement, 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

The directors are responsible for the preparation and fair presentation of the 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 determines necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers internal control relevant to the Bank'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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly in all material respects, the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended 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.

Report on other Legal and Regulatory Requirements

The Law No: 07/2009 of 27/04/2009 relating to Companies which was promulgated on 27 April 2009 requires that in carrying out our audit, we consider and report to you on the following matters. We confirm that:

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

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

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

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

ALLAN GICHUHI
FOR ERNST & YOUNG (RWANDA) SARL
KIGALI

30 March...2012

Financial Statements

	Note	2011	2010
Assets		Rwf'000	Rwf'000
Cash in hand	3	8,123,088	6,881,845
Cash balances with the National Bank of Rwanda	4	61,621,376	22,562,505
Due from banks	5	51,994,652	38,452,178
Loans and advances to customers	6	123,130,687	101,402,657
Financial investments – held-to-maturity	7	8,190,524	5,224,395
Financial investments – available-for-sale	8	218,455	268,375
Other assets	9	14,920,439	4,390,670
Intangible assets	10	146,350	180,604
Property and equipment	11	19,554,303	18,313,417
Total Assets		287,899,874	197,676,646
Liabilities and Equity			
Customer deposits	12	181,019,654	135,677,746
Due to banks	13	19,090,060	18,920,636
Tax payable	26(a)	137,024	496,816
Other payables	14	18,725,051	6,841,124
Long term debt	15	4,998,112	-
Deferred tax	26(b)	2,345,641	3,870,437
Total Liabilities		226,315,542	165,806,759
Equity			
Share capital	16	6,673,370	5,005,000
Revaluation	17 (a)	7,763,446	7,150,542
Reserves	17 (b)	37,947,998	13,535,763
Retained earnings	17 (c)	9,199,518	6,178,582
Total Equity		61,584,332	31,869,887
Total Liabilities And Equity		287,899,874	197,676,646

These financial statements were approved by the Board of Directors on 29 March 2012 and signed on its behalf by:-

....
Director

....
Director

Financial Statements

	Note	2011 Rwf'000	2010 Rwf'000
Interest and similar income	18	22,671,124	16,368,740
Interest and similar expense	19	(6,075,680)	(4,182,666)
Net interest income		16,595,444	12,186,074
Fee and commission income	20	4,326,856	3,022,031
Foreign exchange gains	21	7,643,851	5,247,543
Other income	22	888,719	691,381
Total operating income		29,454,870	21,147,029
Impairment loss on loans and advances	6(e)	(4,544,321)	(2,376,281)
Impairment loss on available-for-sale investments	8(b)	(49,920)	(46,733)
Net operating income		24,860,629	18,724,015
Personnel expenses	23	(7,070,435)	(5,038,341)
Amortisation	10	(146,348)	(180,602)
Depreciation	11	(2,285,972)	(1,357,181)
Operating expenses	24	(4,703,966)	(3,466,499)
Total operating expenses		(14,206,721)	(10,042,623)
Profit before tax		10,653,908	8,681,392
Income tax expense	26(a)	(1,965,143)	(2,502,810)
Profit for the year		8,688,765	6,178,582
Earnings per share:			
Basic and diluted earnings per share	27	15.62	12.34

	Note	2011 Rwf'000	2010 Rwf'000
Profit for the year		8,688,765	6,178,582
Other comprehensive income net of taxes:			
Revaluation net of deferred tax		-	7,150,542
Effect of change in tax rate on revaluation	17 (a)	1,021,506	-
Other comprehensive income net of taxes		1,021,506	7,150,542
Total comprehensive income net of taxes		9,710,271	13,329,124

	Note	Share Capital	Share Premium	Retained Earnings	Revaluation Reserve	Legal reserves	Special Reserves	Other Reserves	Total
		Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000
At 1 January 2010		5,005,000	-	2,643,481	-	2,272,254	2,357,488	6,262,540	18,540,763
Dividends declared		-	-	-	-	-	-	-	-
Appropriation of Retained Profit	17(c)	-	-	(2,643,481)	-	528,636	528,636	1,586,209	-
Total Comprehensive Income:									
Other comprehensive income		-	-	-	7,150,542	-	-	-	7,150,542
Profit for the year		-	-	6,178,582	-	-	-	-	6,178,582
At 31 December 2010		5,005,000	-	6,178,582	7,150,542	2,800,890	2,886,124	7,848,749	31,869,887
At 1 January 2011		5,005,000	-	6,178,582	7,150,542	2,800,890	2,886,124	7,848,749	31,869,887
Dividends declared		-	-	-	-	-	-	-	-
New share Issue	16	1,668,370	18,233,653	-	-	-	-	-	19,902,023
Appropriation of Retained Profit	17(c)	-	-	(6,178,582)	-	617,858	617,858	4,942,866	-
Deferred Tax		-	-	-	102,151	-	-	-	102,151
Total Comprehensive Income:									
Other comprehensive income		-	-		-	-	-	-	-
Effect of change in tax rate					1,021,506				1,021,506
Transfer of excess depreciation		-	-	510,753	(510,753)				-
Profit for the year		-	-	8,688,765	-	-	-	-	8,688,765
At 31 December 2011		6,673,370	18,233,653	9,199,518	7,763,446	3,418,748	3,503,982	12,791,615	61,584,332

	Note	2011 Rwf'000	2010 Rwf'000
Operating Activities			
Profit before taxation		10,653,908	8,681,392
Adjustment for:			
Depreciation		2,285,972	1,357,181
Amortisation of intangible assets		146,348	180,602
Dividends received		(33,180)	(10,477)
Impairment on available-for-sale investments		49,920	46,733
Cash flows generated from operating activities before changes in working capital		13,102,968	10,255,431
Loans and advances to customers		(21,728,030)	(24,306,791)
Other assets		(10,529,769)	(1,112,872)
Customer deposits		45,341,908	26,194,942
Other payables		11,822,067	2,452,533
Cash flows generated from operations		38,009,144	13,483,243
Income taxes paid	26(a)	(2,714,134)	(2,911,451)
Net cash flows from operating activities		35,295,010	10,571,792
Investing Activities			
Purchase of held to maturity investments		(2,916,209)	7,088,511
Dividends received		33,180	10,477
Purchase of property and equipment		(3,526,858)	(3,080,383)
Purchase of intangible assets		(112,094)	(344,313)
Net cash flows used in investing activities		(6,521,981)	3,674,292
Financing Activities			
Dividends paid		-	(2,643,482)
New shares issued		19,902,023	-
New loans raised		4,998,112	-
Net cash flows used in financing activities		24,900,135	(2,643,482)
Net increase in cash and cash equivalents		53,673,164	11,602,602
Cash and cash equivalents at 01 January		48,975,892	37,373,290
Cash and cash equivalents at 31 December	28	102,649,056	48,975,892

1. Corporate Information

Bank of Kigali Limited is a financial institution licensed to provide corporate and retail banking services to corporate, small and medium size enterprises and retail customers in various parts of Rwanda.

The Bank is a limited liability company incorporated and domiciled in Rwanda.

The financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 29 March 2012.

2. Accounting Policies

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The financial statements are presented in Rwandan Francs (Rwf) which is the functional and reporting currency and all values are rounded to the nearest thousand (Rwf'000) except when otherwise indicated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) except where otherwise noted in the accounting policies.

Presentation of financial statements

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 30.

2.2 Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment) – 1 July 2010
- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)) IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – 1 July 2010

The adoption of the standards or interpretations is described below:

IFRS 1 Limited Exemption from Comparative IFRS7 Disclosures for First-time Adopters(Amendment):-The amendment to IFRS 1 is effective for annual periods beginning on or after 1 July 2010. The amendment allows first-time adopters to utilise the transitional provisions of IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application. To achieve this, the transitional provisions in IFRS 7 were also amended. This is not applicable to the Bank as it is not a first-time adopter.

IAS 24 Related Party Transactions (Amendment):-The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the entity.

2. Accounting Policies (Continued)

2.2. Changes in accounting policy and disclosures (continued)

IAS 32 Financial Instruments: Presentation (Amendment):-The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if therights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equityinstruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment had no impact on the Bank as no such transactions were entered into.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:-IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in income statement. The adoption of this interpretation had no effect on the financial position or performance of the Bank as no such transactions were entered into.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment):-The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment corrects an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment had no impact on the financial statements of the Bank, as no defined benefit plans are used by the Bank.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The following amendments have no impact on the financial position or performance of the entity.

- IFRS 1 First-time Adoption of International Financial Reporting Standards (effective from 1 January 2011)
  - Accounting policy changes in the year of adoption - The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting, it has to explain those changes and update the reconciliations between previous GAAP and IFRS. This amendment had no impact on the Bank, as the Bank already reports in terms of IFRS.
    Revaluation basis as deemed cost - The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such re-measurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity). This amendment had no impact on the Bank, as the Bank already reports in terms of IFRS.
  - Use of deemed cost for operations subject to rate regulation - The amendment expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulate activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These balances may include amounts that would not be permitted for capitalisation under IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs and IAS 38 Intangible Assets. This amendment had no impact on the Bank, as the Bank already reports in terms of IFRS.

2. Accounting Policies (Continued)

2.2. Changes in accounting policy and disclosures (continued)

- IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The amendment had no impact on the financial statements of the Bank.

- IFRS 7 Financial Instruments — Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in the notes.

- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the entity

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements
- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the entity's financial statements are listed below. This listing of standards and interpretations issued are those that the entity reasonably expects tohave an impact on disclosures, financial position or performance when applied at a future date. The entity intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would bepresented separately from items that will never be reclassified. The amendment affects presentation only andhas there no impact on the entity's financial position or performance. The amendment becomes effective forannual periods beginning on or after 1 July 2012.

IAS 19 Employee benefits (Revised): - The amendments are effective for annual periods beginning on or after 1 January 2013. There are changes to post employee benefits in that pension surpluses and deficits are to be recognised in full (no more deferral mechanisms) and all actuarial gains and losses recognised in other comprehensive income as they occur with no recycling to the income statement. Past service costs as a result of plan amendments are to be recognized immediately. Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement. Although the Bank will not be impacted by amendments relating to defined benefit plans, the impacts on the definitions of short-term and long-term employee benefits are still being assessed.

Financial Statements

2. Accounting Policies (Continued)

2.2. Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the entity's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment has no impact on the entity's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The amendment has no impact on classification and measurements of financial liabilities.

IFRS 13 Fair Value Measurement: - IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. Clarification on certain aspects are also provided. The Bank will consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the Bank 1 January 2013.

IFRS 7 Financial Instruments: *Disclosures (Amendment)* – Disclosures – Offsetting Financial Assets and Financial Liabilities:-The amendment amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for annual periods beginning on or after 1 January 2013 and the Bank is still in the process of determining how it will impact the note disclosures upon adoption.

IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities :-The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts" (IAS 32.42(a)). This means that the right of set-off:

- must not be contingent on a future event; and
- must be legally enforceable in all of the following circumstances:
  - the normal course of business;
  - the event of default; and
  - the event of insolvency or bankruptcy of the entity and all of the counterparties.

The following listing of standards and interpretations issued are those that the entity reasonably expects will have an impact on disclosures, financial position or performance when applied at a future date.

IAS 12 Income taxes – Deferred taxes: Recovery of underlying assets (Amendment):-The amendment is effective for annual periods beginning on or after 1 January 2012 and introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed a use basis should be adopted. This amendment will have no impact on the Bank after initial application, as investment properties are measured using the cost method.

2. Accounting Policies (Continued)

2.2. Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting forsubsidiaries, jointly controlled entities, and associates in separate financial statements. The entity does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associatesand Joint Ventures, and describes the application of the equity method to investments in joint ventures inaddition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment):- The amendment is effective for annual periods beginning on or after 1 July 2011. The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to sev ere hyperinflation. A further amendment to the standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS. This had no impact on the Bank.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses theaccounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation —Special Purpose Entities.IFRS 10 establishes a single control model that applies to all entities including special purpose entities. Thechanges introduced by IFRS 10 will require management to exercise significant judgement to determinewhich entities are controlled, and therefore, are required to be consolidated by a parent, compared with therequirements that were in IAS 27.This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements:-IFRS 11 replaces IAS 31 and SIC-13. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. The reference to 'control' in 'joint control' refers to the definition of 'control' in IFRS 10.

IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

Joint operation — An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. Joint operations are accounted for by showing the party's interest in the assets, liabilities, revenues and expenses, and/or its relative share of jointly controlled assets, liabilities, revenue and expenses, if any.

Joint venture — An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity accounting method.

The option to account for joint ventures (as newly defined) using proportionate consolidation has been removed. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to considered whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Bank as it is not party to any joint arrangements.

IFRS 12 Disclosure of Involvement with Other Entities :- IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013 and the impact of adopting this new standard is still being assessed.

2. Accounting Policies (Continued)

2.2. Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

The amendment is effective for annual periods beginning on or after 1 January 2014 and the Bank is still in the process of determining how it will impact the Statement of Financial Position and Income Statement upon adoption.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine: - This new interpretation provides guidance on how to account for stripping cost in the development phase of a surface mine. This interpretation will become effective 1 January 2013 and will have no impact, as the Bank is not involved in mining activities.

2.3 Summary of Significant Accounting Policies

(a) Significant accounting judgments, estimates and assumptions

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

Going concern

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Bank is also required by the National Bank of Rwanda (BNR) Instruction No. 02/2011 to estimate losses on loans and advances as follows:

A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the National Bank of Rwanda.

2. Accounting Policies (Continued)

2.3. Summary of Significant Accounting Policies (continued)

(a) Significant accounting judgments, estimates and assumptions (continued)

Impairment losses on loans and advances (continued) The Bank has made provisions for impairment in accordance with the National Bank of Rwanda Instruction No. 02/2011 as follows:

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

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

Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20% and 'prolonged' as greater than 6 months. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets

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

(b) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

2. Accounting Policies (Continued)

2.3. Summary of Significant Accounting Policies (continued)

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

(iii) Derivatives recorded at fair value through profit or loss

The Bank uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in profit or loss.

(iv) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss. Interest earned or incurred is accrued in 'Interest and similar income' or 'Interest and similar expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other income' when the right to the payment has been established.

Included in this classification are loans and advances to customers which are economically hedged by credit derivatives and do not qualify for hedge accounting, as well as notes issued which are managed on a fair value basis.

(v) Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive Income and accumulated in equity. Upon disposal, the gain/loss is released into profit or loss . Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for sale financial investments are recognised in profit or loss as 'Other income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in profit or loss in 'Impairment loss on financial assetsand removed from the 'Available-for-sale reserve'.

The Bank's available for sale investments as at 31 December 2011 are disclosed in note 8.

2. Accounting Policies (Continued)

2.3 Summary of Significant Accounting Policies (continued)

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

(vi) Held-to-maturity financial investments

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

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

The Bank's held to maturity financial investments as at 31 December 2011 are disclosed in note 7.

(vii) Due from banks and loans and advances to customers

Due from banks include 'Cash balances with the National Bank of Rwanda' and 'Placements and balances with other banking institutions'. Due from banks and 'Loans and advances to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates at fair value through profit or loss;
- Those that the Bank, upon initial recognition, designates as available-for-sale; or
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts due from banks and 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in profit or loss. The losses arising from impairment are recognised in profit or loss in 'Impairment loss on financial assets'.

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

(viii) Customer deposits and deposits and balances with other banks and financial institutions

Financial instruments or their components issued by the Bank, which are not designated at fair value through profit or loss, are classified as liabilities under 'Customer deposits' and 'deposits and balances with other banks and financial institutions, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

2. Accounting Policies (Continued)

2.3 Summary of Significant Accounting Policies (continued)

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

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

(ix) Borrowings

Borrowings are recognised initially at fair value. After initial measurement borrowings are subsequently measured at amortised cost using effective interest rate. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or coststhat are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

(c) Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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

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

(ii) Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Gains and losses on borrowings are recognised in profit or loss when the liabilities arederecognised as well as through the EIR amortisation process

2. Accounting Policies (Continued)

2.3 Summary of Significant Accounting Policies (continued)

(d) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the bank reclassifies those securities in its statement of financial position to 'Financial investments available–for–sale pledged as collateral'.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held-for-trading' and measured at fair value with any gains or losses included in profit or loss

(e) Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in profit or loss.

(f) Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

(g) Impairment of financial assets

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

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

2. Accounting Policies (Continued)

2.3 Summary of Significant Accounting Policies (continued)

(g) Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as placements and balances with other banking institutions, loans and advances to customers as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment loss on financial assets.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

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

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

See Note 6 for an analysis of impairment allowance on loans and advances.

2. Accounting Policies (Continued)

2.3 Summary of Significant Accounting Policies (continued)

(g) Impairment of financial assets (continued)

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assess at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Bank treats 'significant' generally as 20% and 'prolonged' as greater than 6 months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in the fair value after impairment are recognised directly in other comprehensive income.

(iii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. The difference between the old carrying amount and the new carrying amount arising from impairment losses initially recognised are reversed. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(h) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

(i) Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2. Accounting Policies (Continued)

2.3. Summary of Significant Accounting Policies (continued)

(i) *Leasing (continued)*

Bank as a lessee

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

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

(j) *Recognition of income and expenses*

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

(i) Interest and similar income and expense

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

The carrying amount of 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 EIR and the change in carrying amount is recorded as 'Other income'. However, for a reclassified financial asset (see Note 2.3 (b)(x)) for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

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

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

  Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Financial Statements

2. Accounting Policies (Continued)

2.3 Summary of Significant Accounting Policies (continued)

(j) Recognition of income and expenses (continued)

(ii) Fee and commission income (continued)

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

- Fee income from providing transaction services

  Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

(k) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand, current accounts with National Bank of Rwanda, and amounts due from banks and government securities on demand or with an original maturity of three months or less.

(l) Property and equipment

Property and equipment is initially stated at cost.

Buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is recognised in other comprehensive income and accumulated in the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred from the asset revaluation reserve to retained earnings.

All other property and equipment (including equipment under operating leases where the Bank is the lessor) is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. 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.

Depreciation is calculated using the reducing balance method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Buildings	*5%*
Furniture, fittings and equipment	*25%*
Motor vehicles	*25%*
Computer equipment	*50%*

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

Financial Statements

2. Accounting Policies (Continued)

2.3 Summary of Significant Accounting Policies (continued)

(l) ***Property and equipment*** (Continued)

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other income' in profit or loss in the year the asset is derecognised. The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

(m) ***Intangible Assets***

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

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

The useful lives of intangible assets are assessed to be 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 profit or loss 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 at 2 years.

(n) ***Impairment of non-financial assets***

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell using available fair value indicators.

2. Accounting Policies (Continued)

2.3 Summary of Significant Accounting Policies (continued)

(o) Financial guarantees

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

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

(p) Statutory defined contribution pension scheme

The Bank contributes to a statutory defined contribution pension scheme, the Rwanda Social Security Board (RSSB). Contributions are determined by local statute and are currently limited to 5% of an employee's basic salary. The Bank's CSR contributions are charged to profit or loss in the period to which they relate.

(q) Provisions

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

(r) Taxes

(i) Current tax

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

(ii) Deferred tax

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

Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2. Accounting Policies (Continued)

2.3 Summary of Significant Accounting Policies (continued)

(r) Taxes (continued)

(ii) Deferred tax (continued)

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

(s) 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 reporting date are disclosed as an event after the reporting date.

(t) Foreign currency translation

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

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. All translation gains and losses arising on non-trading activities are taken to 'Other operating income' in the statement of other comprehensive .

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

3. Cash in Hand

	2011 Rwf'000	2010 Rwf'000
Cash in foreign currencies	5,303,811	4,402,749
Cash in local currency	2,819,277	2,479,096
	8,123,088	6,881,845

4. Due from National Bank of Rwanda

Balances in Repos	52,800,000	16,229,323
Balances in current accounts	8,821,376	6,333,182
	61,621,376	22,562,505

5. Due from Banks

Due from local banks	1,831,116	250,876
Due from correspondent banks	36,091,827	36,288,465
Short term Investments in foreign banks	14,071,709	1,912,836
	51,994,652	38,452,178

6. Loans and Advances to Customers

a) Net loans and advances

Gross loans and advances	130,662,798	105,526,673
Less: Allowance for impairment losses (Note 6 (b))	(7,532,111)	(4,124,016)
	123,130,687	101,402,657

b) Impairment allowance for loans and advances to customers

Impairment allowance on loans and advances (Note 6 (d))	6,767,435	3,198,058
Interest accrued on impaired loans and advances	764,676	925,958
	7,532,111	4,124,016

c) Impaired loans and advances

Impaired loans and advances	10,893,247	9,003,141

Non performing loans and advances on which interest has been suspended amount to Rwf 10.9 billion (2010: Rwf 9.0 billion). Interest income continues to be accrued on the account balances based on the original effective interest rate but it is suspended.

Financial Statements

6. Loans and Advances to Customers (continued)

	2011 Rwf'000	2010 Rwf'000
d) Impairment allowance for loans and advances		
At 1 January	3,198,058	2,932,503
Impairment losses on loans and advances	8,319,423	6,074,342
Recoveries	(3,775,102)	(3,698,061)
Amounts written off	(974,944)	(2,110,726)
At 31 December	6,767,435	3,198,058
e) Impairment losses for the year		
Impairment losses on loans and advances	(8,319,423)	(6,074,342)
Recoveries on non performing loans	3,775,102	3,698,061
Charge for the year	(4,544,321)	(2,376,281)

Impairment is carried out by individual and collective assessment. There were no repossessions and collaterals held and not considered in impairment assessment.

7. Financial investments – Held-to-Maturity

	2011 Rwf'000	2010 Rwf'000
Treasury Bills	6,023,682	1,443,672
Treasury bonds	2,166,842	3,780,723
	8,190,524	5,224,395

Treasury bills and Treasury bonds are debt securities issued by the Government of Rwanda and are classified as held-to-maturity.

The Bank's investments in treasury bills and government bonds are carried at amortised cost.

Financial Statements

8. Financial Investments –Available-for-Sale Investments

	2011 Rwf'000	2010 Rwf'000
a) Investments in unlisted shares		
Banque Rwandaise de Développement S.A	21,975	21,975
Banque de l'Habitat du Rwanda S.A	75,000	75,000
Banque de Développement des Etats de Grands Lacs S.A	-	5,000
Magasins Généraux du Rwanda S.A	5,000	5,000
Société des Transports Internationaux	-	20,000
King Faycal Hospital	-	46,733
Société Interbancaire de Monétique et de Télécompensation	166,400	166,400
	268,375	340,108
Impairment loss (Note 8 (b))	(49,920)	(71,733)
	218,455	268,375
b) Impairment loss for available for sale investments		
At 1 January	71,733	25,000
Charge for the year	49,920	46,733
	121,653	71,733

The available-for-sale Investment (unquoted equity) is recorded at cost since there is no active market for these investments.

Available-for-sale financial assets are valued using models which sometimes only incorporates data observable in the market and at other time use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

9. Other Assets

	2011 Rwf'000	2010 Rwf'000
Prepayments and other receivables	721,337	2,803,092
Clearing effects and accounts in transit	14,195,082	1,582,133
Staff salary advances	4,020	5,445
	14,920,439	4,390,670

10. Intangibles Assets

	2011	2010
Cost		
At 1 January	479,136	134,822
Additions	112,094	344,314
At 31 December	591,230	479,136
Amortisation		
At 1 January	298,532	117,930
Charge for the year	146,348	180,602
At 31 December	444,880	298,532
Net book value	146,350	180,604

Intangible assets represent computer software in use at the Bank.

11. Property and Equipment

(a) 31 December 2011	Land	Building	Computer equipment	Motor vehicles	Furniture, fittings and equipment	Work in progress	Total
	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000
COST/REVALUATION							
At 1 January 2011	31,172	17,064,291	1,280,583	392,286	4,418,564	388,883	23,575,779
Additions	10,006	853,154	261,614	91,995	1,771,113	538,976	3,526,858
At 31 December 2011	41,178	17,917,445	1,542,197	484,281	6,189,677	927,859	27,102,638
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							
At 31 December 2011	41,178	15,167,683	275,306	177,739	2,964,539	927,859	19,559,303

11. Property and Equipment (continued)

(b) 31 December 2010	Land	Building	Computer equipments	Motor vehicles	Furniture, fittings and equipment	Work in progress	Total
	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000
COST/REVALUATION							
At 1 January 2010	31,172	6,188,125	903,018	311,436	2,846,585	-	10,280,336
Additions		661,106	377,565	80,850	1,571,979	388,883	3,080,383
Revaluation	-	10,215,060	-	-	-	-	10,215,060
At 31 December 2010	31,172	17,064,291	1,280,583	392,286	4,418,564	388,883	23,575,779
DEPRECIATION							
At 1 January 2010	-	1,569,593	732,337	198,961	1,404,283	-	3,905,181
Charge for the year	-	319,041	259,248	48,336	730,563	-	1,357,181
At 31 December 2010	-	1,888,634	991,585	247,297	2,134,846	-	5,262,362
NET BOOK VALUE							
At 31 December 2010	31,172	15,175,656	288,998	144,989	2,283,718	388,883	18,313,417

Buildings were revalued by management in 2010 based on the estimated market value. The revaluation was carried out by an independent valuer.If buildings were measured using the cost model, the carrying amounts would be as follows:

	2011	2010
	Rwf'000	Rwf'000
Cost	7,702,385	6,849,231
Accumulated depreciation	2,239,009	1,888,634
Net carrying amount	5,463,376	4,960,597

	2011 Rwf '000	2010 Rwf '000
12. Customer Deposits		
Demand deposits	130,998,511	97,436,848
Term deposits	43,621,874	33,179,653
Current accounts and other customer deposits	6,399,269	5,061,245
	181,019,654	135,677,746
13. Due to Banks		
Due to local banks	5,731,822	9,302,163
Term deposits	13,112,067	9,323,670
Finance borrowings	246,171	294,803
	19,090,060	18,920,636
14. Other Payables		
Other payables to the government	243,541	214,481
Social security remittances	104,653	68,816
Accrued expenses	5,128,011	2,943,867
Clearing account	13,248,846	3,613,960
	18,725,051	6,841,124
15. Long – Term Debt		
EIB Loan – Eur 5m 7 years	1,976,157	-
AFD Loan-USD 20m 10 years	3,021,955	-
Borrowings during the year	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 Small and Medium Enterprises for loans greater than one year. The drawdown in the current year was EUR 2.6 million.

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 US$ 20m and US$12m respectively. The drawdown in the current year was US$ 5 million on the AFD loan.

16. Share Capital

	2011 Rwf'000	2010 Rwf'000
Authorised share capital:	7,024,600	5,005,000
Issued and fully paid: 667,337,000 ordinary shares of Rwf 10 each	6,673,370	5,005,000

During the year, the shareholders resolved to split the shares in the ratio of 1:11,000. This created 667,337,000 ordinary shares with a par value of Rwf 10.

There was also a resolution passed during the year to increase the authorised share capital to 702,460,000 shares.

17. Reserves and Retained Earnings

a) Revaluation

	2011 Rwf'000	2010 Rwf'000
Buildings	7,150,542	10,215,060
Effect of change in tax rate	1,021,506	-
Transfer of excess depreciation	(510,753)	-
Deferred tax on transfer	102,151	(3,064,518)
	7,763,446	7,150,542

Revaluation reserve represents an increase in carrying value of buildings that were revalued in year 2010.

17. Reserves and Retained Earnings (Continued)

(b) Reserves

	2011 Rwf'000	2010 Rwf'000
Share Premium	18,233,653	-
Legal reserves	3,418,748	2,800,890
Special reserves	3,503,982	2,886,124
Other reserves	12,791,615	7,848,749
	37,947,998	13,535,763

(c) Retained earnings

Profit for year	8,688,765	6,178,582
Transfer of excess depreciation	510,753	-
	9,199,518	6,178,582

The Bank transfers 20% of its profit after tax to special reserves (10% legal reserves and 10 % special reserves). These reserves are not mandatory and neither are they distributable.

Other reserves represent amounts transferred from retained earnings to reserves that may be decided by the General Assembly.

18. Interest Income

	2011 Rwf'000	2010 Rwf'000
Interest on ordinary accounts with banks	30,081	12,019
Interest received from reverse repos	1,890,855	920,027
Interest on overdrawn accounts	3,455,488	1,966,020
Interest on overdraft	2,929,129	2,878,594
Interest on equipment loans	1,410,599	891,336
Interest on consumer loans	2,153,692	1,392,333
Interest on mortgage loans	4,859,681	4,691,951
Interest on other loans to customers	5,167,783	2,880,673
Interest on assets held to maturity	773,816	735,787
	22,671,124	16,368,740

19. Interest Expense

Interest on transactions with other banks	1,163,140	307,981
Interest on current accounts	226,625	132,834
Interest on fixed deposits	4,685,915	3,741,851
	6,075,680	4,182,666

Financial Statements

		2011 Rwf'000	2010 Rwf'000
20.	**Fees and Commissions Income**		
	Commissions on operations of accounts	537,011	315,431
	Commissions on payment facilities	1,267,196	930,897
	Commission on loan service	1,124,093	781,235
	commissions received from financing commitments	298,853	181,554
	commissions received from guarantees commitments	652,438	540,610
	Income from transactions with other banks	30,574	24,611
	Other fees from services	416,691	247,693
		4,326,856	3,022,031
21.	**Foreign Exchange Gains**		
	Gain on foreign exchange dealings	7,643,851	5,247,543
22.	**Other Income**		
	Other income from banking activities	233,075	203,212
	Dividend received	33,180	10,477
	Gain on disposal of fixed assets	35,592	271
	Rental income	187,744	212,556
	Other non banking income	399,128	264,865
		888,719	691,381
23.	**Personnel Expenses**		
	Salaries and wages	6,362,872	4,412,454
	Social security contribution	419,747	289,936
	Other staff costs	287,816	335,951
		7,070,435	5,038,341
24.	**Operating Expenses**		
	General operating expenses	4,341,703	3,181,085
	Audit fees	41,388	45,657
	Directors emoluments	320,875	239,757
		4,703,966	3,466,499

25. Operating Segments

For management purposes, the bank is organised into two operating segments based on products and services as follows:

Retail banking-individual customers' deposits and customer loans, overdrafts and fund transfer facilities.

Corporate banking - Loans and other credit facilities and deposit and current accounts for corporate and institutional customers.

No operating segments have been aggregated to form the reportable operating segment shown below.

Management monitors the two operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and is measured consistently with operating profit in the financial statements.

	2011				2010			
	Retail Rwf'000	Corporate Rwf'000	Others Rwf'000	Total Rwf'000	Retail Rwf'000	Corporate Rwf'000	Others Rwf'000	Total Rwf'000
Loans and advances to customers	39,082,036	84,048,641	-	123,130,687	20,674,624	80,728,033	-	101,402,657
Customers' Deposits	54,209,547	126,820,107	-	181,019,654	36,358,895	99,318,851	-	135,677,746
Net Interest Income	4,664,405	12,082,082	(151,043)	16,595,444	2,543,401	9,895,092	(252,419)	12,186,074

Loans and advances from large exposures (aggregate exposures per client/related borrower group) amounted to Rwf 11.5 bn compared to Rwf 15.1 bn in 2010.

	2011 Rwf'000	2010 Rwf'000
26. Taxes		
a) Corporate Tax		
Statement of financial position:		
Balance brought forward	496,816	1,036,637
Charge for the year	2,366,283	2,371,630
Over provision in prior year	(11,941)	-
Paid during the year	(2,714,134)	(2,911,451)
Tax payable	137,024	496,816
Statement of comprehensive income:		
Current tax at 20% on the taxable profit for the year (2010: 30%)	2,366,282	2,371,630
Deferred tax expense	(401,139)	131,180
Income tax expense	1,965,143	2,502,810
Reconciliation of the total tax charge:		
Accounting profit before tax	10,653,908	8,681,392
At statutory income tax rate of 20% (2010: 30%)	2,130,782	2,604,417
Tax effect on income not subjected to tax	(13,754)	131,180
Tax effect on non deductable expenses	115,286	103,349
Reversal of tax overprovision	(267,171)	(336,136)
	1,965,143	2,502,810

b) Deferred tax

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

	Deferred tax liabilities 2010 Rwf'000	Income statement Rwf'000	Statement of financial position 2011 Rwf'000	Deferred Tax liability Rwf'000
Capital allowances	805,919	(192,333)	-	613,586
Revaluation of assets-property	3,064,518	-	(1,123,657)	1,940,861
Other Temp. Differences		(208,806)	-	(208,806)
	3,870,437	(401,139)	(1,123,657)	2,345,641

Financial Statements

27. Earnings per Share

Basic earnings per share is calculated by dividing the profit for the year Rwf 8,688,765 (2010: Rwf 6,178,582) attributable to ordinary equity holders of Bank of Kigali by the weighted average number of ordinary shares outstanding during the year.

	2011 Rwf'000	2010 Rwf'000
Profit for the year attributable to equity shareholders	8,688,765	6,178,582
Weighted average number of shares	556,112,333	500,500,000
Effect of dilution:		
Share options (Employee Share Ownership Plan)	172,439	-
Weighted average number of ordinary shares adjusted for the effect of dilution	556,284,772	500,500,000
Earnings per share:		
Basic and diluted earnings per share	15.62	12.34
Diluted earnings per share	15.62	12.34

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 not later than 31 August 2017. The warrant entitle the holder one newly issued share of the bank for the cash consideration equal to offer price(Rwf 125) and payable in full at the time of purchase.

28. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise of the following balance sheet accounts:

	2011 Rwf'000	2010 Rwf'000
Cash in hand due from banks	8,123,088	6,881,845
Due from National Bank of Rwanda	61,621,376	22,562,505
Due from banks	51,994,652	38,452,178
Due to banks	(19,090,060)	(18,920,636)
	102,649,056	48,975,892

29. Contingent Liabilities

a) Letters of credit

Acceptances and Letters of Credit issued	28,267,296	8,709,523
Guarantee Commitments issued	20,773,242	15,360,031
Other commitments not recognised in the statement of financial position	455,256	868,072
	49,495,794	24,937,626

The contingent liabilities represent transactions entered into in the normal course of business and are represented by counter indemnities or cash securities from customers for the same amount. Letters of credit, guarantee and acceptance commit the Bank to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods. Guarantees and letters of credit carry the same credit risk as loans.

b) Legal cases

The Bank is also party to various legal proceedings from default customers for a total amount of Rwf 5.83 m (2010: Rwf 5.95 m). 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, which in aggregate, would otherwise have material effect on these financial statements.

30. Capital Commitments

There were no capital commitments at the reporting date.

31. Related Party Transactions

(a) Transactions 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 Bank offers Senior Management staff loans such as vehicles and mortgage loans at preferential rates pegged to the RRA reference rate (interbank commercial rate which is currently 7%) with a maximum tenor of 15 years. Any loans granted are included in financial instruments on the face of the statement of financial position.

Loans to directors are advanced at arm's length in the ordinary course of business and are adequately secured

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` the year 2011	Balance as at 31 December 2011	Income 2011	Maximum balance during the year 2010	Balance as at 31 December 2010	Income 2010
	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000
Residential Mortgages	563,775	536,929	15,629	298,078	266,435	6,179
Other loans	33,007	167,214	3,837	40,000	127,255	2,766

Transactions 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.

			Amount owed by related parties		Amount owed to related parties	
	Interest from related parties	Interest to related parties	Balance as at 31 December	Maximum balance during the year	Balance as at 31 December	Income
	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000
Entities with significant influence over the bank						
2011	476	-	131,620	17,541,164	17,386,404	798,592
2010	-	-	-	12,646,706	10,989,035	1,040,272

(b) Due from employees and directors

	2011	2010
	Rwf'000	Rwf'000
Loans and advances to employees	3,013,146	1,846,315
Loans and advances to directors and their associates	131,620	107,973
	3,144,766	1,954,288

Financial Statements

31. Related Party Transactions (Continued)

(c) Due to employees and directors

	2011 Rwf'000	2010 Rwf'000
Deposits by directors and shareholders	17,455,366	11,798,303

Directors and key management remuneration		
Key management compensation		
Short-term employee benefits	1,071,699	765,711
Post-employments pension and medical benefits	61,153	51,410
Terminal benefits	21,724	-
	1,154,577	817,121
Directors emoluments	320,875	239,757
	1,475,452	1,056,878

The members of the Board of Directors are listed on page 32. The key management comprise of Chief Executive Officer, Chief Operations Officer, Chief Shared Services officer, Chief Finance Officer and Heads of Departments.

32. Capital

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 Basel Committee on Banking Supervision, Bank of International Settlement (BIS), rules/ratios which have also been adopted by the National Bank of Rwanda in supervising the Bank.

During the year, the Bank complied in full with all its externally imposed capital requirements (2009: the same).

Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes yet have been made in the objectives, policies and processes from the previous years. However, it is under constant scrutiny of the Board.

Regulatory capital:

The Bank's capital adequacy ratio as 31 December was as follows:

	Actual 2011 Rwf'000	Required 2011 Rwf'000	Actual 2010 Rwf'000	Required 2010 Rwf'000
Tier 1 Capital	53,820,887	19,157,417	24,719,345	13,199,172
Tier 2 Capital	1,940,861	-	1,787,636	-
Total Capital	55,761,748	28,736,125	26,506,981	19,798,758

Financial Statements

32. Capital (Continued)

	2011 Rwf'000	2010 Rwf'000
Total risk weighted assets	191,574,170	131,442,450
Tier 1 capital ratio	28.1%	18.7%
Tier 2 capital ratio	29.1%	20.1%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and non-controlling interests less accrued dividends, net long positions in own shares and goodwill. Certain adjustments are made to IFRS-based results and reserves as prescribed by the National Bank of Rwanda (BNR). The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

The National Bank of Rwanda (BNR) sets and monitors capital requirements for the banking industry as a whole. The BNR has set among other measures, the rules and ratios to monitor adequacy of a bank's capital. A prescribed minimum percentage on Capital to total risk-weighted credit exposure is required by the BNR to all Banks operating in Rwanda.

The Bank's regulatory capital is a ratio of the following components:

- Capital: This comprises of capital which is permanently and freely available to absorb losses without the bank being obliged to cease trading.
- Credit Exposures : This is comprised of Total Risk weighted assets (to account for difference in degree of riskiness) made up of On and Off Balance sheet exposures

33 Risk Management

Introduction

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the later being subdivided into trading and non trading risks. It is also subject to various operating risks

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

Risk management structure

The Board of directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Risk Management subcommittee which has the responsibility to monitor the overall risk process within the Bank

The risk committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk committee is responsible for managing risk decisions and monitoring risk levels and reports on a weekly basis to the Risk Management subcommittee of the Board.

The risk department is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the risk committee to ensure that procedures are compliant with overall framework

The Risk department is responsible for monitoring compliance with risk principles and limits across the Bank. It is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. The department also ensures the complete capture of risks in measurement and reporting systems. Exceptions are reported on a daily basis, where necessary to the risk committee takes the relevant actions to address exceptions and any areas of weakness.

33. Risk Management (Continued)

Risk management structure (Continued)

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and report its findings and recommendations to the audit committee

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposures across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the risk committee and the head of each business division. On a monthly basis detailed reporting of industry, consumer and geographical risks takes place. Senior management assesses the appropriateness of the allowances for credit losses on a monthly basis. The Board receives a comprehensive risk report once a quarter which is designed to provide all necessary information to assess and conclude on the risks of the Bank

A daily briefing is given to the Managing Director and all other relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity plus any other risk developments.

Excessive risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

And in order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

(a) Credit risk

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

Risk Management Department is responsible for independently reviewing all limit applications and making recommendations to the Management Credit Committee and the Board Credit Committee, in terms of authority limits.

33. Risk Management (Continued)

(a) Credit risk (Continued)

Management of credit risk

The Board Credit Committee owns the credit policy and are responsible for reviewing the policy at least once in a year, ensuring it remains current

The Board of Directors is responsible for approving and periodically reviewing the credit risk strategy of the Bank, significant underwriting initiatives as defined in the Credit Policy Limits, and significant credit risk policies.

Executive management is responsible for implementing Credit Policy and recommending amendments to the Board Credit Committee. Management presents to the Board, on an annual basis, through Credit Committee its annual Credit Strategy outlining:

i) Review of current portfolio, distribution, profitability and quality;
ii) Target markets;
iii) A review of economic environment and willingness to trade with various economic sector;
iv) Its credit appetite;
v) Aggregate loan for the Bank as a proportion of total assets;
vi) Financial statements budgets

The Board is responsible for approving the Credit Risk Strategy.

The Risk Management Committee is responsible for monitoring credit and ensuring compliance with limits and that credit risk exposure do not expose undue threat on capital and compound risks. Internal audits are carried out annually and ensure compliance with authority limits, origination and documentary requirements, regulatory guidelines, other internal procedures and policies.

Once exposures are booked into the statement of financial position, the following credit risk attributes are monitored by lending department in the various business lines, and independently by Risk Management Department at least monthly:

i) Adherence to limits;
ii) Portfolio diversification by industry sector, product type and business line;
iii) Level of significant credit concentration and compliance to prudential lending limits;
iv) Maturity distribution of portfolio;
v) Past-due status and level of Non Performing Loans;
vi) Portfolio risk grading profile;
vii) Lending authority breaches.

Exposure to credit risk

Loans and advances to customers

	2011 Rwf'000	2010 Rwf'000
Carrying amount		
Non performing loans		
Class 3: Substandard	4,270,190	2,111,176
Class 4: Doubtful	2,266,711	2,560,639
Class 5: Loss	3,591,670	3,357,989
Interest in suspense	764,676	973,337
Non performing loan portfolio	10,893,247	9,003,141
Allowance for impairment	(7,532,111)	(4,124,016)
Carrying amount	3,361,136	4,879,125

33. Risk Management (Continued)

(a) Credit risk (Continued)

Loans and advances classified as 3, 4 and 5 in the Banks' internal credit risk grading system are non performing. 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. Specific provisions are made on these classes.

Loans and advances classified as 1 and 2 are performing loans. According to the National Bank of Rwanda guidelines, no specific provisions for these loans are required.

Aging analysis of past due but not impaired loans by class of financial assets - 2011

	Less than 30 days	31-90 days	Total
	Rwf'000	Rwf'000	Rwf'000
Overdraft	4,481,677	608,031	5,089,708
Treasury loans	21,228,321	1,885,345	23,113,666
Equipments loans	27,198,348	323,693	27,522,041
Consumer loans	17,725,754	473,007	18,198,761
Mortgage loans	36,586,618	3,882,688	40,469,306
Other Loans to clients	3,774,525	633,809	4,408,334
Receivables in transit	877,145	90,591	967,736
	111,872,388	7,897,164	119,769,551

Aging analysis of past due but not impaired loans by class of financial assets - 2010

	Less than 30 days	31-90 days	Total
	Rwf'000	Rwf'000	Rwf'000
Overdraft	9,924,515	326,283	10,250,798
Treasury loans	12,965,997	1,755,726	14,721,723
Equipments loans	13,374,794	4,963,202	18,337,996
Consumer loans	11,801,230	970,992	12,772,222
Mortgage loans	25,696,140	1,044,016	26,740,156
Other Loans to clients	11,427,204	790,749	12,217,953
Receivables in transit	1,214,352	268,332	1,482,684
	86,404,232	10,119,300	96,523,532

Collateral on Loans and Advances

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are generally not updated except when a loan is individually assessed as impaired or when a borrower has cleared a loan and would like to obtain another facility at the time when the validity of the valuation has since expired.

33. Risk Management (Continued)

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

Loans and advances to customers

	2011 Rwf'000	2010 Rwf'000
Against individually and collectively impaired		
Property	5,693,223	2,951,850
Other	173,838	105,812
Against past due but not impaired		
Property	88,270,755	38,956,859
Other	12,392,123	12,909,437
Total	106,529,939	54,923,958

(b) Liquidity risk

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

Management of liquidity risk

Assets and Liabilities Management Committee are charged with the responsibility of managing liquidity risk. They delegate the responsibility for daily management of funding requirements to the Head of Finance and Treasury.

Management attempts to achieve a balance between the need to provide for liquidity and achieve profitability. The bank maintains a statutory deposit with the National Bank of Rwanda equal to 5% of customer deposits.

The Bank has put in place a liquidity risk policy that, at least:

- Identifies who is responsible for measuring liquidity risk within the Bank;
- The frequency of internal reporting;
- Define how senior management monitors liquidity;
- Desired sources of liquidity and appropriate funding structure.

The Bank has adequate procedures and systems for monitoring liquidity. As such, the Bank:

- Clearly allocates responsibility for measuring and reporting liquidity;
- Assets and Liabilities Committees maintain Management Information system that can produce accurate liquidity reports promptly;
- Regularly reports on the level of liquid assets and funding requirements through appropriate reports to the Management and Board.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to total liquid liabilities. Details of the reported Bank ratio of net liquid assets to total liquid liabilities at the reporting date and during the reporting year were as follows:

	2011 Rwf'000	**2010** Rwf'000
Total liquid assets	121,739,117	67,896,528
Total liquid liabilities	200,109,714	154,598,382
Liquidity ratio	60.8%	43.9%
Minimum liquidity ratio required	20.0%	20.0%

Financial Statements

33. Risk Management (Continued)

(b) Liquidity risk (continued)

Advances to deposits ratios

	2011	2010
Year end	72.2%	77.8%
Maximum	80.4%	79.9%
Minimum	62.8%	74.1%
Average	73.1%	77.3%

The bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year. Loans to customers that are part of reverse repurchase arrangements, and where the bank receives securities which are deemed to be liquid, are excluded from the advances to deposit ratio

Net liquid assets to customer liabilities ratios

	2011	2010
Year end	60.8%	43.9%
Maximum	116.5%	51.0%
Minimum	51.0%	44.0%
Average	87.0%	48.0%

Net liquid assets to customer liabilities ratios

Net liquid assets are liquid assets less all funds maturing in the next 90 days from wholesale market sources and from customers who are deemed to be professional. The bank defines liquid assets for the purpose of the liquidity ratio as cash balances, short-term interbank deposits and highly rated debt securities available for immediate sale and for which a liquid market exists.

33. Risk Management (Continued)

(b) Liquidity risk (continued)

The maturity risk profile of the bank as at 31 December 2011 was as follows (amounts in Rwf'000)

Assets	Up to one month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Cash in hand and balances with BNR	69,744,464	-	-	-	-	-	69,744,464
Investment in Government bonds	2,929,893	1,928,652	423,657	614,600	2,293,722	-	8,190,524
Investment with other banks	51,716,974	-	-	-	277,678	-	51,994,652
Net advances to customers	25,784,956	6,217,086	5,950,438	11,744,334	51,132,754	22,301,118	123,130,687
Other investments	-	-	-	-	-	218,455	218,455
Other assets	14,920,439	-	-	-	-	-	14,920,439
Intangible assets						146,350	146,350
Property and equipments	-	-	-	-	-	19,554,303	19,554,303
Total assets as at 31 December	165,096,726	8,145,738	6,374,095	12,358,934	53,704,154	42,220,226	287,899,874
Liabilities							
Deposits and balances with other banks	6,176,773	1,133,337	5,367,000	6,412,950	-	-	19,090,060
Customer deposits	141,108,823	8,756,499	19,300,666	11,853,666	-	-	181,019,654
Tax liabilities	-	137,024	-	-	-	-	137,024
Long term debt	-	-	-	-	-	4,998,112	4,998,112
Deferred tax	-	-	-	-	-	2,345,641	2,345,641
Other accounts payable	18,725,051	-	-	-	-	-	18,725,051
Total liabilities as at 31 December	166,010,647	10,026,860	24,667,666	18,266,616	-	7,343,753	226,315,542
Owner's equity as at 31 December	-	-	-	-	-	-	61,584,332
Maturity Gap for 2011	(913,921)	(1,881,122)	(18,293,571)	(5,907,682)	53,704,154	34,876,473	-
Off statement of financial position gap	Negative Gap	Negative Gap	Negative Gap	Negative Gap	Positive Gap	Positive Gap	-

33. Risk Management (Continued)

(b) Liquidity risk (continued)

The maturity risk profile of the bank as at 31 December 2010 was as follows (amounts in Rwf'000)

Assets	Up to one month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Cash in hand and balances with BNR	29,444,350	-	-	-	-	-	29,444,350
Investment in Government bonds	59,005	2,534,277	177,015	1,742,662	711,436	-	5,224,395
Investment with other banks	38,452,178	-	-	-	-	-	38,452,178
Net advances to customers	16,829,464	5,105,790	2,316,272	5,068,121	37,154,764	34,928,246	101,402,657
Other investments	-	-	-	-	-	268,375	268,375
Other assets	4,397,670	-	-	-	-	-	4,390,670
Intangible assets						180,604	180,604
Property and equipments	-	-	-	-	-	18,313,417	18,313,417
Total assets as at 31 December	89,182,667	7,640,067	2,493,287	6,810,783	37,866,200	53,690,642	197,676,646
Liabilities							
Deposits and balances with other banks	10,611,246	2,718,200	3,564,790	2,026,400	-	-	18,920,636
Customer deposits	106,607,290	3,596,587	13,569,471	11,774,388	130,010	-	135,677,746
Tax liabilities	-	496,816	-	-	-	-	496,816
Provisions	18,728	-	-	-	-	-	18,728
Deferred tax	805,918	-	-	-	766,130	2,298,389	3,870,437
Other accounts payable	6,822,397	-	-	-	-	-	6,822,397
Total liabilities as at 31 December	124,865,578	6,811,603	17,134,261	13,800,788	896,140	2,298,389	165,806,759
Owner's equity as at 31 December	-	-	-	-	-	-	31,869,887
Maturity Gap	(35,689,911)	828,464	(14,640,974)	(6,990,005)	36,970,060	51,392,253	-
Off statement of financial position gap	Negative Gap	Positive Gap	Negative Gap	Negative Gap	Positive Gap	Positive Gap	-

33. Risk Management (Continued)

(c) Market risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The most common market risk factors for the Bank are interest rates and foreign exchange rates.

Movements in market risk factors may result in adverse (or favorable) changes in the market value of an asset or commitment. The market risk of both individual financial instruments and portfolios of instruments can be a function of one, several, or all of these basic factors and, in many cases, can be significantly complex.

The Bank ensures that it adequately measures, monitors, and controls the market risks involved in its activities. Market risk is managed through the Asset and Liability Committee process for interest rate and foreign exchange risk related to asset/liability management activities. On a day-to-day basis, market risk exposures are independently reviewed and measured by the Finance department and Risk department, and appropriate management reports generated.

Interest risk exposure

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise.

The Bank actively manages the interest rate sensitivity (the exposure of net interest income to interest rate movements).

Interest rate risk is measured by evaluating the potential effect on earnings of various interest rate shocks scenarios. Interest rate sensitivity is quantified by calculating the change in rate spread and net interest income between the scenarios over a 12 month holding period. The measurement of interest rate sensitivity is the percentage change in net interest income and rate spread calculated.

Asset and Liability Committee requires frequent reviews of scenarios to examine the impact of large interest rate movements. The interest sensitive risk profile of the Bank as at 31 December 2011 was as follows:

33. Risk Management (Continued)

(c) Market risk (continued)

Interest sensitivity risk profile (amounts in Rwf'000) at 31 December 2011

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non -interest bearing	Total
Cash in hand and balances with BNR	52,793,342	-	-	-	-	-	16,951,122	69,744,464
Investment with other banks	15,132,147	-	-	-	277,678	-	36,584,827	51,994,652
Net advances to customers	26,144,237	10,582,137	6,637,916	11,182,570	52,117,663	11,196,372	5,269,789	123,130,687
Financial investment held to maturity	2,929,893	1,928,652	423,657	614,600	2,293,722	-	-	8,190,524
Financial investment available for sale	-	-	-	-	-	-	218,455	218,455
Other assets	-	-	-	-	-	-	14,920,439	14,920,439
Intangible assets							146,350	146,350
Property and equipments	-	-	-	-	-	-	19,554,303	19,554,303
Interest Sensitive (IS) assets as at 31 December	96,999,619	12,510,789	7,061,573	11,797,170	54,689,063	11,196,375	93,645,285	287,899,874
Deposits and balances from other banks	67,000	77,092	2,416,024	10,798,122	-	-	5,731,822	19,090,060
Customer term deposits	2,566,546	7,246,022	18,163,978	14,696,617	111,153	-	138,235,338	181,019,654
Tax liabilities	-	-	-	-	-	-	137,024	137,024
Deferred tax	-	-	-	-	-		2,345,641	2,345,641
Long term debt	-	-	-	-	-	4,998,112	-	4,998,112
Other accounts payable	-	-	-	-	-	-	18,725,051	18,725,051
Interest Sensitive (IS) liabilities as at 31 December	2,633,546	7,323,114	20,580,002	25,494,739	111,153	4,998,112	165,174,876	226,315,542
Owner's equity as at 31 December	-	-	-	-	-	-	-	61,584,332
Sensitive gap as 31 December	94,366,073	5,187,675	(13,518,429)	(13,697,569)	54,577,911	6,198,263	(71,529,591)	-
Cumulative gap	94,366,073	99,553,748	86,035,319	72,337,750	126,915,660	133,113,923	-	-
% age of IS assets to IS Liabilities	3,683%	171%	34%	46%	492%	224%		
Asset/Liability sensitivity	Asset	Asset	Asset	Asset	Asset	Asset		

33. Risk Management (Continued)

(c) Market risk (continued)

Interest sensitivity risk profile (amounts in Rwf'000) at 31 December 2010

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non -interest bearing	Total
Cash in hand and balances with BNR	16,229,323	-	-	-	-	-	13,215,027	29,444,350
Investment with other banks	1,972,284	-	-	-	-	-	36,479,894	38,452,178
Net advances to customers	-	-	-	29,123,415	37,154,764	30,366,685	4,757,793	101,402,657
Financial investments held to maturity	-	-	978,916	464,756	3,339,728	440,995	-	5,224,395
Financial investments available for sale	-	--	-	-	-	-	268,375	268,375
Other assets	-	-	-	-	-	-	4,390,670	4,390,670
Intangible assets							180,604	180,604
Property and equipments	-	-	-	-	-	-	18,313,417	18,313,417
Interest Sensitive (IS) assets as at 31 December	18,201,607	-	978,916	29,588,171	40,494,492	30,807,680	77,605,780	197,676,646
Customer term deposits	1,962,437	1,269,227	4,787,884	25,140,981	19,125	-	102,498,092	135,677,746
Deposits and balances from other banks	2,825,542	-	-	1,250,000	6,485,000	-	8,360,094	18,920,636
Tax liabilities	-	-	-	-	-	-	496,815	496,815
Provisions							18,728	18,728
Deferred tax							3,870,437	3,870,437
Other accounts payable	-	-	-	-	-	-	6,822,397	6,822,397
Interest Sensitive (IS) liabilities as at 31 December	4,787,979	1,269,227	4,787,884	26,390,981	6,504,125	-	122,066,563	165,806,759
Owner's equity as at 31 December	-	-	-	-	-	-	31,869,887	31,869,887
Sensitive gap as 31 December	13,413,628	(1,269,227)	(3,808,968)	3,197,190	33,990,367	30,807,680	(44,460,782)	-
Cumulative gap	13,413,628	12,144,401	8,335,433	11,532,623	45,522,990	76,330,670	31,869,887	-
% age of IS assets to IS Liabilities	380%	(100%)	(20%)	112%	623%	100%		
Asset/Liability sensitivity	Asset	Liability	Liability	Asset	Asset	Asset		

Financial Statements

33. Risk Management (Continued)

(c) Market risk (continued)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Bank's profit before tax (through the impact on floating rate borrowings). There is only an immaterial impact on the Bank's equity.

2011	Increase/decrease in basis points	Effect on profit before tax
		Rwf'000
Rwf	+/- 1	587,641
US$	+/- 1	(13,441)
JPY	+/- 1	3
CHF	+/- 1	(132)
GBP	+/- 1	18,708
EURO	+/- 1	24,797
Others	+/- 1	(353)
2010		
Rwf	+/- 1	290,211
US$	+/- 1	(52,506)
JPY	+/- 1	4
CHF	+/- 1	830
GBP	+/- 1	32,061
EURO	+/- 1	(17,264)
Others	+/- 1	419

Foreign currency exchange risk

The Bank records transactions in foreign currencies at the rates in effect at the date of the transaction. The Bank retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the statement of financial position date. All the gains or losses arising from the changes in the currency exchange rates are accounted for in profit and loss. The foreign currency sensitive risk profile of the Bank as at 31 December 2011 was as follows:

33. Risk Management (Continued)

(c) Market risk (continued)

Foreign currency risk (amounts in Rwf'000) at 31 December 2011

	Rwf	USD	JPY	CHF	GBP	EUR	CAD	Others	Total
Cash and balances with BNR	64,029,153	4,304,741	-	103,749	40,892	1,247,800	18,130	-	69,744,465
Investment in Government bonds	8,190,524	-	-	-	-	-	-	-	8,190,524
Investment with other banks	1,733,060	37,008,143	278	77,273	2,456,112	10,694,517	17,291	7,978	51,994,652
Net advances to customers	122,751,346	364,291	-	44	401	14,564	41	-	123,130,687
Other investments	218,455	-	-	-	-	-	-	-	218,455
Other assets	14,920,439	-	-	-	-	-	-	-	14,920,439
Property and equipments	19,700,652	-	-	-	-	-	-	-	19,700,652
Total assets	231,543,629	41,677,175	278	181,066	2,497,405	11,956,881	35,462	7,978	287,899,874
Liabilities									
Deposits and balances from other banks	18,570,985	252,687	-	-	57,996	207,583	-	809	19,090,060
Customer term deposits	133,855,971	38,463,801	-	90,561	527,742	8,021,756	59,757	66	181,019,654
Tax liabilities	137,024	-	-	-	-	-	-	-	137,024
Deferred tax	2,345,641	-	-	-	-	-	-	-	2,345,641
Long term debt	-	3,021,955	-	-	-	1,976,157	-	-	4,998,112
Other accounts payable	17,869,925	825,853	-	-	9,202	17,071	3,000	-	18,725,051
Total liabilities	172,779,546	42,564,296	-	90,561	594,940	10,222,567	62,757	875	226,315,542
Equity									
Share capital	6,673,370	-	-	-	-	-	-		6,673,370
Reserves	45,711,444	-	-	-	-	-	-	-	45,711,444
Retained Earnings	9,199,598	-	-	-	-	-	-	-	9,199,598
Total equity	61,584,332	-	-	-	-	-	-	-	61,584,332
Foreign currency gap as at 31 December 2011	-	(887,121)	278	90,505	1,902,465	1,734,314	(27,295)	7,103	-

33. Risk Management (Continued)

(c) *Market risk (continued)*

Foreign currency risk (amounts in Rwf'000) at 31 December 2010

	Rwf	USD	JPY	CHF	GBP	EUR	CAD	Others	Total
Cash and balances with BNR	23,478,595	4,800,566	-	65,482	81,251	999,955	18,501	-	29,444,350
Investment in Government bonds	5,224,395	-	-	-	-	-	-	-	5,224,395
Investment with other banks	116,724	26,914,867	502	139,054	3487,220	7,739,383	54,196	232	38,452,178
Net advances to customers	100,962,825	432,530	-	12	2,916	4,359	15	-	101,402,657
Other investments	268,375	-	-	-	-	-	-	-	268,375
Other assets	3,555,058	434,973	-	10	106	400,513	10	-	4,390,670
Intangible assets	180,604	-	-	-	-	-	-	-	180,604
Property and equipments	18,313,417	-	-	-	-	-	-	-	18,313,417
Total assets	152,099,993	32,582,936	502	204,558	3,571,493	9,144,210	72,722	232	197,676,646
Liabilities									
Deposits and balances from other banks	15,468,687	947,938	-	-	34,506	2,458,646	-	10,858	18,920,635
Customer term deposits	96,708,845	31,650,097	56	56,047	249,580	7,011,469	1,585	67	135,677,746
Tax liabilities	496,816	-	-	-	-	-	-	-	496,816
Provisions	18,728	-	-	-	-	-	-	-	18,728
Deferred tax	3,870,437	-	-	-	-	-	-	-	3,870,437
Other accounts payable	6,515,392	293,625	-	-	30	13,343	7	-	6,822,397
Total liabilities	123,078,905	32,891,660	56	56,047	284,116	9,483,458	1,592	10,925	165,806,759
Equity									
Share capital	5,005,000	-	-	-	-	-	-		5,0005,000
Reserves	20,685,707	-	-	-	-	-	-	-	20,685,707
Retained Earnings	6,178,582	-	-	-	-	-	-	-	6,178,582
Total equity	31,869,887	-	-	-	-	-	-	-	31,869,887
Foreign currency gap as at 31 December 2010	-	(308,724)	446	148,511	3,287,376	(339,248)	71,130	(10,693)	-

33. Risk Management (Continued)

(c) Market risk (continued)

Foreign currency risk (Continued)

Foreign currency sensitivity:

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates for the major currencies, with all other variables held constant, on the Bank's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Bank's equity (due to changes in the fair value of forward exchange contracts and net investment hedges). There is only an immaterial impact on the Bank's equity.

2011	Increase/decrease in basis points	Effect on profit before tax
		Rwf'000
US$	+/- 1	(8,871)
JPY	+/- 1	3
CHF	+/- 1	905
GBP	+/- 1	19,025
EURO	+/- 1	17,343
Others	+/- 1	(202)
2010		
US$	+/- 1	(3,087)
JPY	+/- 1	4
CHF	+/- 1	1,485
GBP	+/- 1	32,874
EURO	+/- 1	(3,392)
Others	+/- 1	604

Financial Statements

(d) Accounting classifications and fair values

Rwf'000	Held to maturity	Loans and receivables	Available for sale	Other amortised Cost	Total carrying amount	Fair value
31 December 2011						
Assets						
Cash and cash equivalents	-	-		69,744,464	69,744,464	69,744,464
Due from Banks	-	-	-	51,994,652	51,994,652	51,994,652
Loans and advances	-	123,130,687	-	-	123,130,687	123,130,687
Financial investments	8,190,524	-	218,455	-	8,408,979	8,408,979
	8,190,524	123,130,687	218,455	69,744,464	253,278,782	253,278,782
Liabilities						
Customer deposits	-	-	-	181,019,654	181,019,654	181,019,654
Due to banks	-	-	-	19,090,060	19,090,060	19,090,060
Long term debt	-	-	-	4,998,112	4,998,112	4,998,112
	-	-	-	205,107,826	205,107,826	205,107,826
31 December 2010						
Assets						
Cash and cash equivalents	-	-	-	29,444,350	29,444,350	29,444,350
Due from Banks	-	-	-	38,452,178	38,452,178	38,452,178
Loans and advances	-	101,402,657	-	-	101,402,657	101,402,657
Financial investments	5,224,395	-	268,375	-	5,492,770	5,492,770
	5,224,395	101,402,657	268,375	67,896,528	174,791,955	174,791,955
Liabilities						
Customer deposits	-	-	-	135,677,746	135,677,746	135,677,746
Due to banks	-	-	-	18,920,636	18,920,636	18,920,636
	-	-	-	154,598,382	154,598,382	154,598,382

(d) Accounting classifications and fair values (continued)

The table below shows certain financial assets and financial liabilities that have been measured at either fair value, analysed by the level of valuation method. The three levels of valuation methodology used are:

- Level 1 – use quoted prices in active markets for identical assets or liabilities
- Level 2 – use inputs for the asset or liability other than quoted prices, that are observable either directly or indirectly
- Level 3 – use inputs for the asset or liability that are not based on observable market data such as internal models or other valuation methods.

Rwf'000

At 31 December 2011	Level 1	Level 2	Level 3	Total
Financial investments held-to-maturity	8,190,524	-	-	8,190,524
Financial investments Available- for- sale	-	-	121,653	121,653
Total financial assets at fair value	-	-	-	-
	8,190,524	-	121,653	8,312,177
At 31 December 2010				
Financial investments held-to-maturity	5,224,395	-	-	5,224,395
Financial investments Available- for- sale	-	-	71,733	71,733
Total financial assets at fair value	5,224,395	-	71,733	5,296,128

(e) 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 behavior. Operational risks arise from all of the Bank's operations and are faced by all business units.

Risk management department is responsible for overseeing the development and implementation of policies and procedures, continuous assessments and control of operational risks, and reporting significant operational risks to Executive Management, heads of business units and staff. The department measures operational risk losses and ensure risks are consciously reduced through appropriate management interventions, policies, and functional controls.

An effective operational risk analysis involves an attempt to quantify the potential financial impact of operational risks on capital and financial performance. The risk management department has developed quantifiable means of tracking and reporting on all operational risks.

Operational risk loss data are collected regularly, and incorporated in risk management reports. Significant losses are communicated to the risk committees; significant losses comprise any loss equal or greater than Rwf 10 million.

33. Risk Management (Continued)

(f) Capital/Solvency risk

The solvency risk is the risk that the Bank will be unable to absorb losses with the available capital. As such, the Bank's capital level defines the amount of solvency risk in the Bank where the potential losses in all risk positions are properly measured. The role of capital is to act as a buffer against future and unidentified losses that may be incurred.

The Board of Directors is responsible for making sure that the Bank's capital is adequate for safe and sound operation. Fulfilling this responsibility entails monitoring and evaluating the capital adequacy positions on a regular basis and planning for future capital needs.

The Board ensures that:

- The Bank's capital structures are appropriate for businesses;
- The adequacy of capital cushion against risks by measurement and monitoring trends in regulatory capital adequacy ratios;
- Determines capital structure and quality of capital. The capital structure may contain permanent shareholders equity and revenue reserves, supplemented by other qualifying capital in terms of the banking regulations;
- The adequacy of capital to support the level of current and anticipated business activities;
- The adequacy of reserves;
- Access to further capital.

The Bank maintains a Capital Adequacy Ratio of no less than 10% at any one time. The capital is adjusted to levels that match the valuation of risks.

(g) Legal and compliance risk

The compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformity with, laws, rules, and regulations, prescribed practices, internal policies, procedures, or ethical standards.

The Board and senior management recognise the consequences associated with non-compliance and devote sufficient resources to ensure that the Bank has an adequate compliance program, covering the legal and compliance issues associated with the Bank's operations to this end.

Management is also responsible for instilling a compliance culture throughout the Bank.

34. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes 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 Friday, 27th April, 2012 at Petit Stade, Remera, Kigali Rwanda at 2.30 pm to transact the following business:

1. To determine whether quorum is present.

2. The Company Secretary to read the notice convening the meeting.

3. To approve the dividend policy for 2011, 2012 and 2013 and approve a first and final dividend for the year ended 31 December 2011 of Rwf 4,344,382,984 subject to withholding tax, where applicable.

4. To receive, consider and if thought fit, adopt the Annual Report and Audited Financial Statements for the year ended 31 December 2011 together with the Directors' and Auditors' reports thereon.

5. Election of Directors.

6. To approve the remuneration of the Directors for the year ending 31 December 2011.

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

Shivon Byamukama
Company Secretary
Plot 6112, Avenue de la Paix
Kigali
29 March 2012

Proxy

A Shareholder 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 Shareholder of the Company.

To be valid, a form of proxy must be duly completed by the Shareholder 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 the 20th day of April 2012, 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 2011 of Rwf 4,344,382,984 (US$ 7.2 million) to be paid to Shareholders on the register of Shareholder of the Company at the close of business on Friday 20 April 2012. The dividend will be paid on or about 9 May 2012.


BK CASH POINT
Withdraw and deposit cash anytime, day or night
7 days a week.
Coming Soon
BANK OF KIGALI
BANK OF KIGALI
Financially transforming lives
www.bk.rw

Proxy Form

I/We ____CDS A/C No ____________________of (address)_____________________________________being a Shareholder(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 Friday the 27th day of April 2012 at 2.30 p.m., or at any adjournment thereof.

As witness to my/our hands on this ________ day of ____________________ 2012

Signature(s) ____

Notes:

1. ***In case of corporate shareholders and indivudual shareholder who would like to 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 the 20th day of April 2012, 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 common seal or signed by its attorney or by an officer of the corporation.***

PLEASE ADMIT ________________ ___________ __________________ to the Annual General Meeting of Bank of Kigali Limited which will be held at the Petite Stade, Remera, Kigali, Rwanda on 27th day of April 2012 at 2.30 p.m. This admission card must be produced by the proxy in order to obtain entrance to the Annual General Meeting. Shivon Byamukama Company Secretary	Number of ordinary shares held: Name of Shareholder: Address of Shareholder: CDS Account Number:

BK Umuturanyi
Ubukungu buhindura ubuzima

Murakaza neza muri BK Umuturanyi

BANK OF KIGALI
Financially transforming lives

www.bk.rw

We are Bank of Kigali
Rwanda's No 1 Bank

BANK OF KIGALI
Financially transforming lives

www.bk.rw