bpr
Banque Populaire du Rwanda

INTEGRATED REPORT & FINANCIAL STATEMENTS

FOR THE YEAR 2021

Bank Populaire du Rwanda is Regulated by The National Bank of Rwanda

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OVERVIEW

Overview

About Us

Founded in 1975 when the people of Nkamba, a village in the current Eastern province of Rwanda felt the need to have a savings and credit scheme to help them grow financially and achieve better livelihoods. Subsequently, other community-based savings and credit schemes were born in other areas of Rwanda becoming various autonomous "Banques populaires."

In 1986, as these autonomous savings and credit schemes grew bigger and stronger, an umbrella bringing them together was put in place, with its headquarters in Kigali, under the name "Union des Banques Populaires du Rwanda (UBPR). These entities were tied together as cooperatives principally to serve their members.

The experience reached in providing financial services to the people, the growth that had been realized and the potential for growth that was inhibited the then cooperative, called for an upgrade.

In 2008, UBPR transformed to become a fully-fledged commercial bank, progressively we have touched the lives of Rwandans and have become part of their success stories, our deeds even went further to manifest by attracting global investors.

In 2016 Atlas Mara merged BPR with the commercial banking wing of the Development Bank of Rwanda (BRDC) that it had acquired in 2014 giving Atlas Mara the controlling stake in BPR with 62.1% of shares, strategic partner Arise remaining with 14.6% and 23.3% retained by Local Shareholders.

As the largest retail bank in Rwanda, the bank built on the existing strong branch network of 137 branches and over 51 ATMs countrywide and brought to the Rwandan market exciting products with the latest technology to deliver excellent customer experience.

KCB Group PLC completed the acquisition of a majority shareholding in Banque Populaire Du Rwanda PLC (BPR) in August 2021. This means that BPR Bank Rwanda Plc is now owned and is a member of KCB Group through outright purchase of Atlas Mara and Arise B.V. shares to a tune of 32 million USD following approvals from both the financial sector regulators in Kenya and Rwanda. KCB Group's total shares of BPR Bank Rwanda Plc stand at 87.56%, with the other 12.44% belonging to local shareholders.

KCB Bank Rwanda and Banque Populaire du Rwanda (BPR) officially joined to form one bank, known as BPR Bank Rwanda Plc, following the successful acquisition of BPR by KCB Group from Atlas Mara Limited and Arise B.V.

137
Branches
51 ATMS
345 Agents & POS

300K
Customers

911
Staff

RWF. 55.5B
Total equity attributable to equity holders of BPR Rwanda

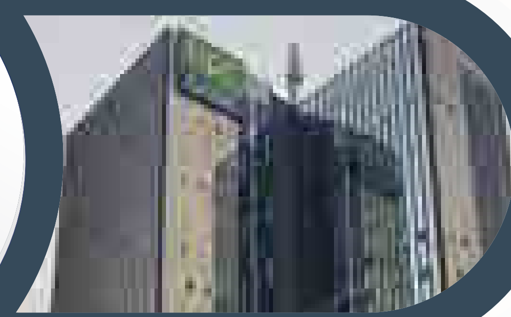
Our Historical Journey

2019
BPR introduces Agency banking and wins best exhibitor at RITF 2019.

2020
Total Assets reach 400 Billion Frw.

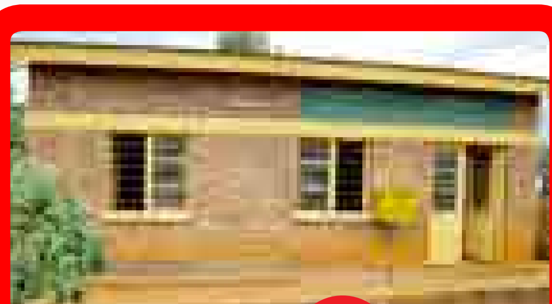
2016
AtlasMara acquires BPR.

2021
TOTAL ASSETS OF FRW 418 B



2010
BPR introduces mobile banking and ATMs.

2008
BPR Total Assets hit 100 Billion Frw.



2006
Branches reach 148 in number.

1975
BPR begins it's journey with 1 branch located in Nkamba (Eastern Province)

1998
BPR begins lending again after the Genocide. PY NPL is 100%

Overview

Our Values

Courage

Demonstrate Courage:
Encourage honest feedback, candor, speaking up and challenging ideas.

Respect

Show Respect:
- Have regard for others
- Show courtesy
- Good manners & politeness
- Value others for what they bring

Integrity

Act with Responsibility & Integrity:
- Taking accountability and ownership (individually collectively)
- Striving for the highest standards
- Doing good and doing well
- Do everything with unquestionable integrity

Partnership

Inclusive Partnership:
It is the ability to be reliable, ethical, credible, by encouraging forthrightness , dialogue open, assuming equality and a positive intention.

Commitment

Visible Commitment:
Describes our passion for what we do, and showcase how engaged we are by supporting each others to achieve the same goal being hard on the issue, not the person, creating the best place to be.

OUR SERVICE PILLARS

PROACTIVE:

- I go beyond my customer expectation.
- I anticipate the needs of my customers.
- I take responsibility for the needs of my customers.

ENERGETIC:

- I display positive energy at work.
- I strive for quality and excellence in what i do.
- I am always at the service of my customers.

APPROACHABLE:

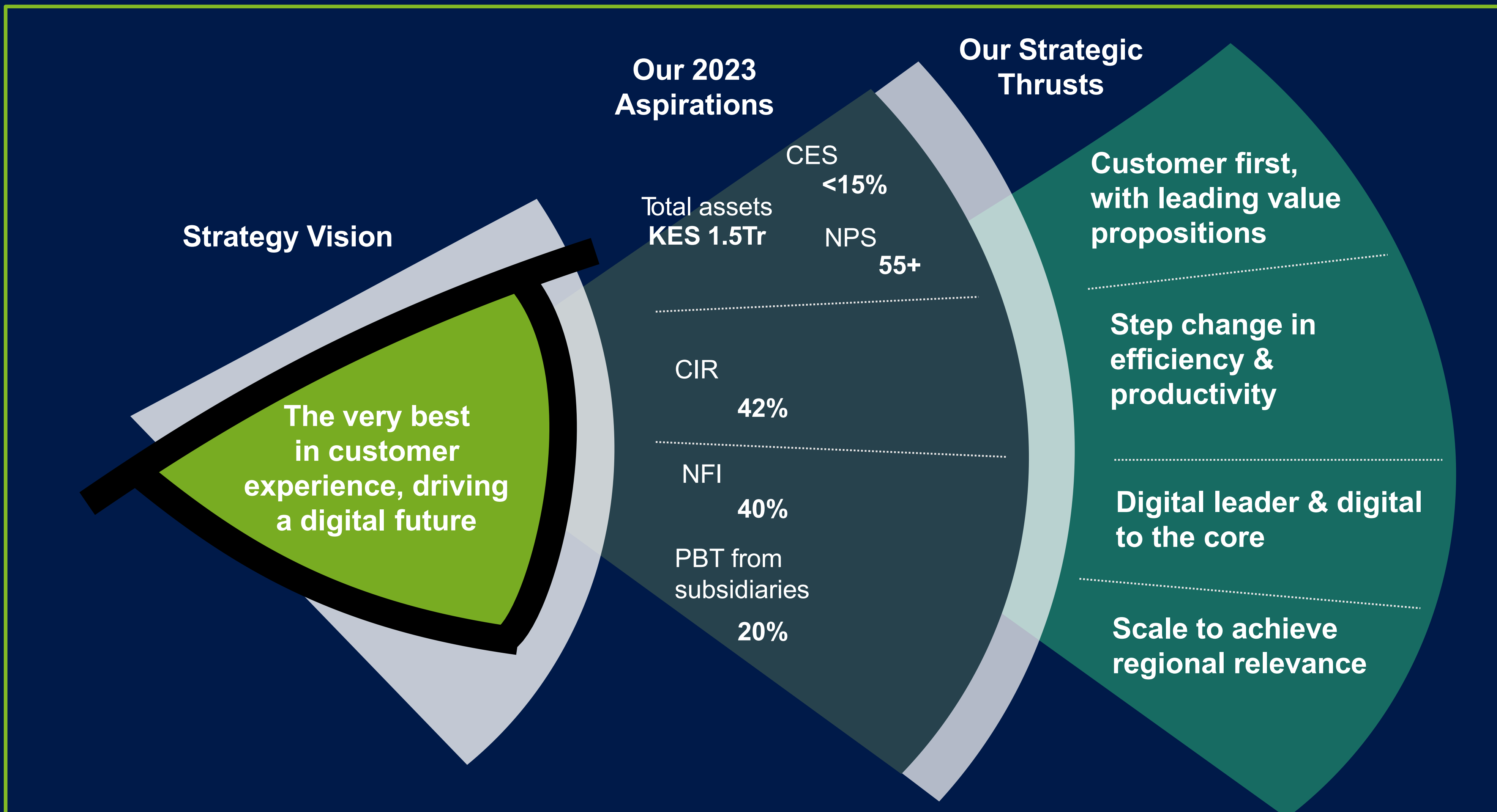
- I believe in positive and timely communication.
- I bond well with internal and external customers.
- I resolve customer issues efficiently.

KNOWLEDGEABLE:

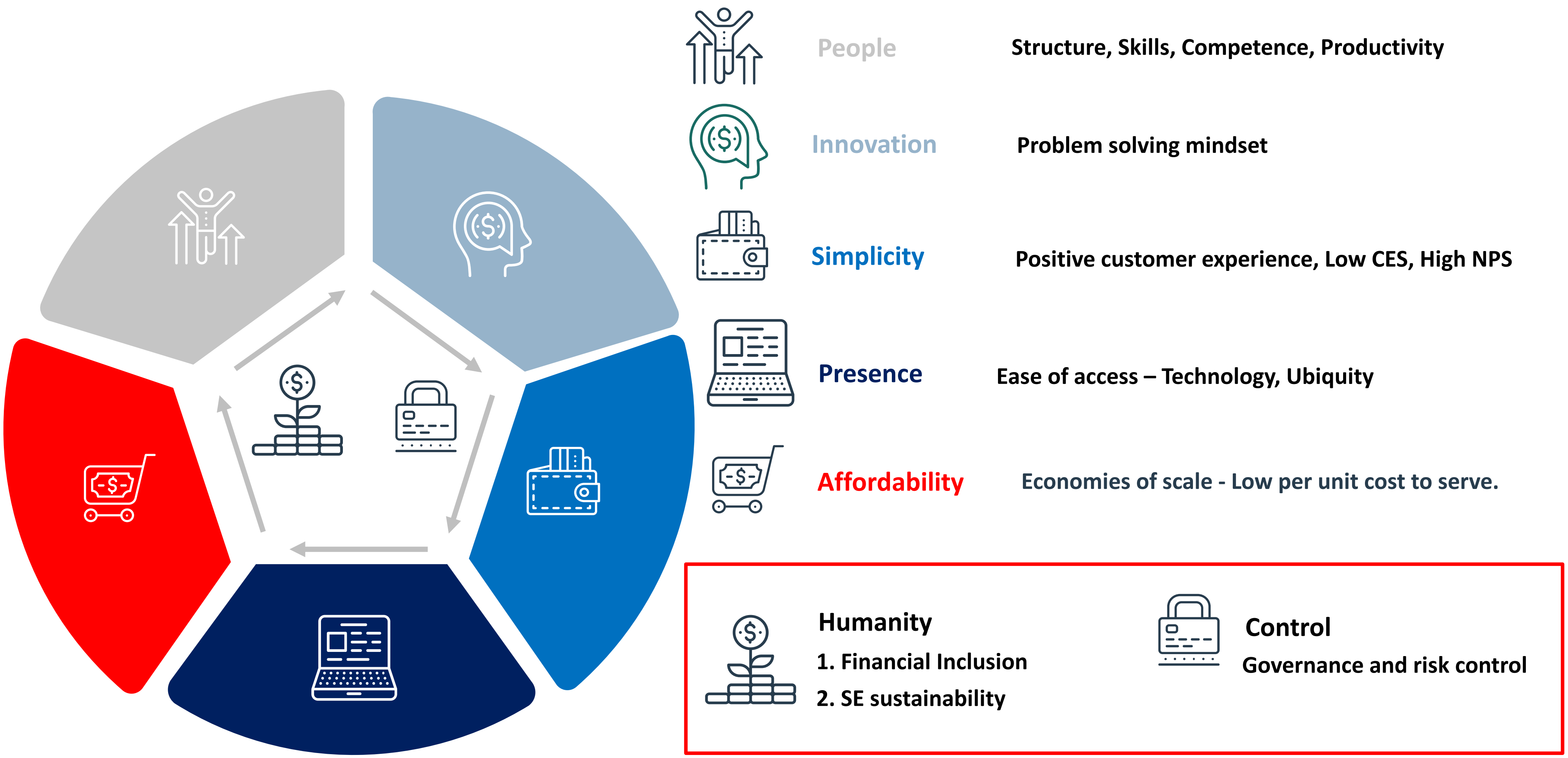
- I value my customers and their preferences.
- I have a good understanding of the bank's products and services.
- I believe that excellence starts with me.

We live our personality and we are always at our **PEAK** in serving customers.

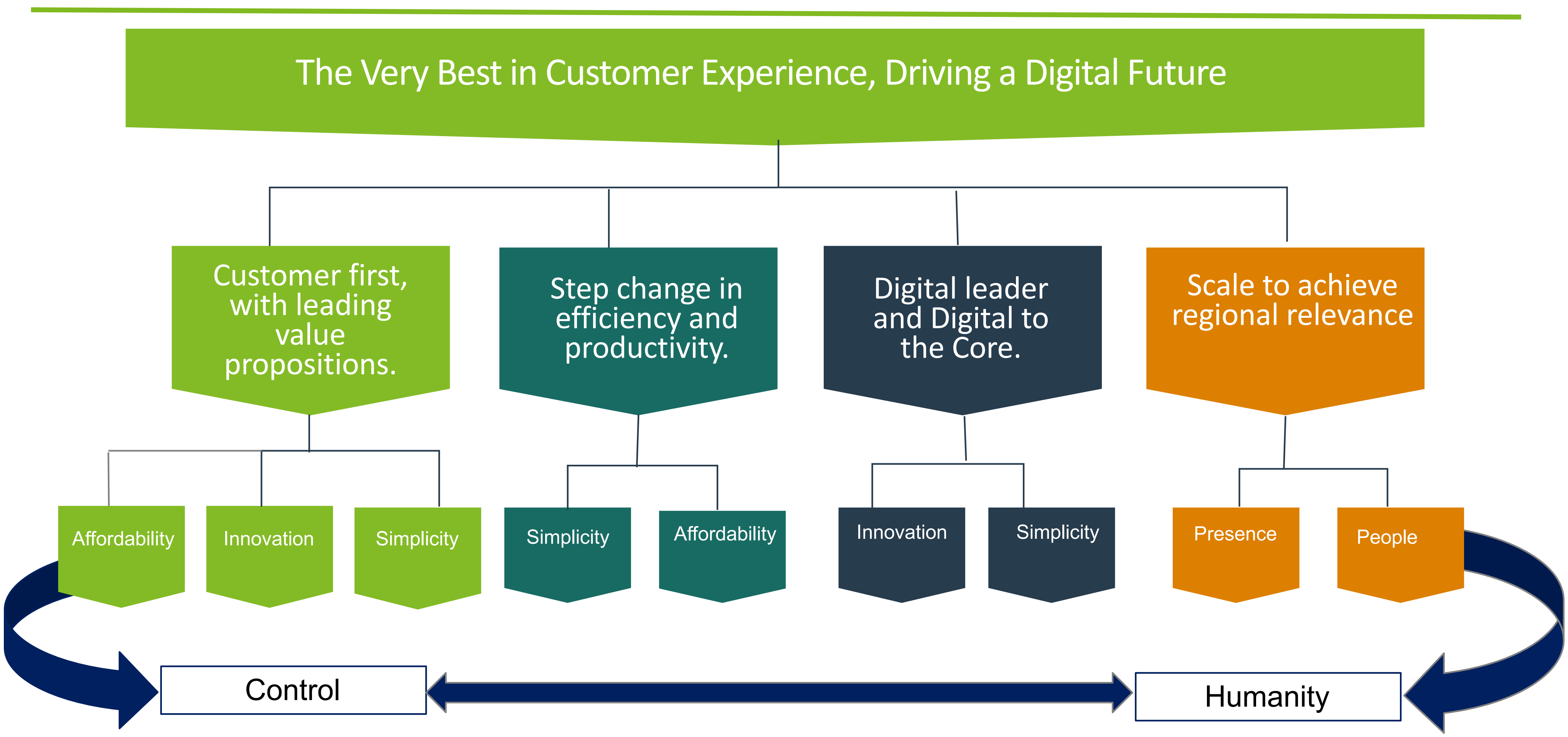
1. KCB’s Beyond Banking Strategy



BPR Strategy



Strategy Alignment



OPERATING ENVIRONMENT

Operating Environment

Rwanda

Our Footprint-BPR	
Branches	137
ATMs	51
Agents	354
Customers	300K
Staff	911

Rwanda's Economy strongly rebounded in 2021 bolstered by sustained fiscal stimulus and an accelerated vaccination rollout. Real GDP in Rwanda increased by 10.9% in 2021 compared to a contraction of 3.4% in 2020. This reflects the low spread in public health catastrophe of COVID-19 compared to 2020.

In 2021, GDP at current market prices was estimated at Frw 10,944 billion, up from Frw 9,607 billion in 2020. Services sector contributed 48% of GDP, Agriculture sector 24% of GDP, and Industry sector 20% of GDP while 8% was attributed to adjustment for taxes less subsidies on products.

Agriculture sector increased by 6% and contributed 1.6 percentage points to the overall GDP growth. Activities in the Industry sector increased by 13% and contributed 2.4 percentage points to the GDP growth. Service sector increased by 12% and contributed 5.6 percentage points to the GDP growth.

In 2021, private final consumption expenditure was 72% of the GDP while government final consumption expenditure was 17%. Gross capital formation was estimated at 26% of GDP. The central bank expects the economy to continue recovering in 2022 with a projected growth of 7.2% driven by the government's supportive macroeconomic policies including the manufacture and build to recover programme, vaccine rollout, and continued resumption of economic activities.

Inflation is projected to move towards the benchmark level and be within the upper bound of the central bank's tolerance level in 2022, driven by the pickup in domestic activity, global demand, and rising commodity prices. In 2021, urban headline inflation decelerated to 0.8% from 7.7% recorded in 2020. The deceleration was mostly reflected in domestic components like food and transport. Food prices dropped reflecting the good performance of agriculture, while transport inflation reduced due to the base effect from the pandemic-related transport hike in 2020. Headline inflation is projected at 7.5% in 2022 mainly due to the increase in imported costs and international commodity prices.

The Rwandan Franc (FRW) depreciated by 3.8% against the US dollar in 2021, an improvement compared to a depreciation of 5.4% in 2020. The slowdown despite of the strengthening of the US dollar witnessed in 2021 was due to reduced pressure on the local currency during the year attributed to stable demand for foreign currencies and increased export earnings. Rwanda's exports continued to recover in 2021 from the COVID-19 induced slump growing by 53.4%. This growth was mainly driven by rising commodity prices across the globe and reduced supply chain disruptions to global trade in 2021. Total imports grew by 16.5% driven by strong recovery of domestic demand coupled with rising global prices.

Our performance	2021 FRW Billion	2020 FRW Billion
Profit before income tax	7.2	5.3
Loans & advances	194.5	183.8
Non-performing loans rate	7.29%	4.15%
Customer deposits	247.4	236.5
Employee Benefits	11.2	11.5
Total Equity	55.5	48.1

Board of Directors

George Rubagumya

Chairman

Dr. J.O. Bagaka

Director

Diana Haguma

Director

Jean Malic Kalima

Director

Patience Mutesi

Director

Paul Russo

Director

Linda Kalimba

Director

George Odhiambo

Managing Director

Brice Manzi

Company Secretary

Who Governs Us

Chairman's Statement

Who Governs Us

Dear Stakeholder,

As we enter 2022, the bank continues to respond effectively to its challenges and that it is well into its growth trajectory, measured by its financial and nonfinancial metrics. Importantly, the bank has re-imagined itself to improve its competitiveness and secure its sustainability for decades to come through Strategic Positioning in the market. The Group and Bank's Strategy have continued to be validated by the market as evidenced by our customers feedback but also financial performance. We remain committed to keeping our Customers First, with leading value propositions, Step Change in efficiency and productivity, Digital leader and digital to the core and finally scale to achieve regional relevance.

" The People's Bank endured another grinding year of pandemic conditions with resilience. In truth, we have done far more than merely endure, we have been truly resilient. "

KCB ACQUISITION OF BPR PART OF ATLAS MARA

In August 2021, KCB Group announced that it had completed the acquisition of Banque Populaire du Rwanda (BPR) majority shares from London-listed financial services firm Atlas Mara Limited. The plan was to eventually create one banking entity in Rwanda to be named BPR Bank Rwanda Plc by merging KCB Bank Rwanda and Banque Populaire du Rwanda (BPR).

As I write this letter, I am pleased and greatly honored to inform you that indeed that plan has been fully realized and BPR Bank Rwanda Plc is now a reality after receiving all the necessary regulatory and other stakeholders' approvals. The new Bank is solidly second in the market with the financial and intellectual resources to meet its goals and ambitions while bringing value to its customers, shareholders and the general public. This acquisition gives a stronger edge in deepening the ongoing KCB Group Plc strategy to scale regional presence.

OUR FINANCIAL PERFORMANCE

The bank profitability increased by 26.65% compared to the prior year recording a profit after tax of Frw 5.13 Billion from Frw 3.76 Billion in 2020. This impressive performance was amid Covid 19 pandemic challenges which demonstrates the banks resilience to navigate through the tough economic environment.

Financial intermediation remains one of our key objectives and this was demonstrated by asset growth of Frw 12.7 billion out of which Frw 10.6 billion was from loans and advances to customers. With enhanced service delivery and customer experience, our deposit portfolio grew by Frw 10.9 billion.

OUR GOVERNANCE

During the year 2021, the Bank's Board of Directors remained steadfast and dedicated to embedding a culture of control and compliance. Key board initiatives were launched to ensure the oversight of key areas of the bank. The bank's board also dedicated significant time in ensuring a smooth and timely integration of BPR and KCBR.

MY APPRECIATION

My thanks to my board colleagues for their excellent work this year, which has enabled us to consider the Bank's plans, strengths and weaknesses in unprecedented detail, and which has made a major contribution to the group's good progress in 2021. The People's Bank endured another grinding year of pandemic conditions with resilience. In truth, we have done far more than merely endure, we have been truly resilient. Thanks to the courage, commitment, expertise and hard work, that enabled the Bank's strong strategic progress, shown across our 2021 performance measures. I believe this momentum will be maintained as we look forward with confidence to meeting the Bank's commitments and targets as communicated in the Group's Strategic Pillars.

I Thank You.

STRATEGY REVIEW

Strategy Review

Managing Director's Statement

Dear Stakeholders,

It gives me singular honor to address you on the Bank's performance in 2021 but also my outlook of 2022. The Bank, like most other organizations, experienced a marginal recovery in 2021 after 2 years of COVID 19 Pandemic related challenges. I cannot overemphasize the perseverance of our customers and staff who held strong and allowed us to go through these tough times with minimum disruptions.

OPERATING ENVIRONMENT

As the COVID-19 pandemic persisted for a second year, global economic recovery gained momentum, although the pace was uneven as developed economies recovered faster than developing ones. After contracting 3.3% in 2020, the global economy grew by 5.9% in 2021, supported by additional fiscal stimulus in developed economies, along with the vaccination rollout, allowing economies to open up further. Sub-Saharan Africa's economic growth was more robust than expected. Accommodative policies, a stronger global backdrop that supported higher commodity prices and multilateral support have been key drivers behind the more robust trajectory seen in many markets.

In 2021, Rwanda's GDP bounced back to an impressive growth of 10.9% from the prior year recession of 3.4%. This reflected a sharp bounce back from an initial projection of 5.6 percent. Covid 19 pandemic containment measures were greatly eased in 2021 and that was reflected in the numbers as highlighted above. Even as the country looks forward to continued growth in 2022, international crises such as the Russia-Ukraine War, increase in fuel prices and growing global inflation remain a threat to Rwanda's economic recovery and

Strategy Review

we will remain vigilant to these threats to ensure we are proactive in our response and repositioning.

Inflation during the year eased compared to the previous year, largely on the back of stronger Agricultural performance that saw food prices level to pre covid 19 prices. The Rwandan Franc (FRW) depreciated by 3.8% against the US dollar in 2021, an improvement compared to a depreciation of 5.4% in 2020. The easing, despite of the strengthening of the US dollar witnessed in 2021 was due to reduced pressure on the local currency.

The Banking Sector in Rwanda remained resilient in the face of COVID 19 pandemic challenges and recorded a growth of 17.4% in total assets during the year 2021 compared to 2020. The year also saw a 15% growth in gross loans and advances compared to the prior year and an even more impressive 16.6% growth in deposits.

Profitability in the Banking Sector continued to soar with a staggering 181 Billion Frws realized as profits before taxes in 2021 compared to 120 Billion Frws in 2020 driven mainly by a 17.2% growth in interest income from loans and advances.

STRATEGY

As we progressed during the year 2021, BPR aligned its strategy to the KCB Group Strategy. Our Seven Pillars of Affordability, Simplicity, Innovation, Presence, People, Control and Humanity were aligned to KCB Group's 4 Pillars of Customer first, with leading value propositions, Step change in efficiency and productivity, Digital leader and Digital to the Core and finally Scale to achieve regional relevance. This process was seamless and we believe that this alignment will allow us to continue delivering on our promises to our clients and also value to our Shareholders.

PEOPLE

I would like to thank the entire BPR team that remained steadfast and resilient during a tough year. The effect of COVID 19 lockdowns and anxiety over the merging of BPR and KCBR was managed by effective communication, town halls and other tools and am happy to report that the Banks Staff attrition rate increased by less material 3.2% compared to the prior year.

The number of staff trained in 2021 increased by 61% compared to 2020 as COVID 19 containment measures continued to be relaxed. On this, am happy to report that nearly all our staff members are vaccinated and boosted. Few exceptions are due to medical reasons. We believe that trainings, both in person and digitally delivered, will ramp up in 2022 as we continue to race towards our learning and development targets.

FINANCIAL PERFORMANCE

The Bank's total assets grew by 3% from Frw 404.8 Billion in 2020 to Frw 417.5 Billion in 2021. Growth of loans and advances was 5.8% in 2021 standing at Frw 194.5 billion up from Frw 183.8 Billion in 2020. Customer Deposits also grew by 4.6% in 2021 from Frw 236.5 Billion in 2020 to Frw 247.4 Billion. Non-Performing Loans increased by Frw 5.5 Billion during the period which resulted in an NPL ratio of 7.29% signaling the aftermath of Covid 19 pandemic on the businesses we support and the economy at large.

Profitability increased by 26.6% compared to the prior year with total comprehensive income growing from Frw 3.76 Billion in 2020 to Frw 5.13 Billion in 2021 buoyed mainly by the banks efficiency and cost management policies that saw a reduction in total operating costs compared to prior year.

A key silver lining in 2021 was the YoY Growth of net fees and commissions by a commendable 16.77% driven mainly by increased customer transactions following an improved operating environment post Covid-19 lockdowns. Operating expenses were down YoY by 1.8% as a result of ongoing improvements in operational efficiencies and enhanced deployment of technology to serve our customers.

These positive showings in 2021 are directly related to the Bank's Digital Transformation journey that begun in 2018 that saw Customer initiated transactions accounts for 68% of the total number of transactions compared to 57% in 2020. We continue to implement initiatives to drive this ratio to above 90% in medium term.

OUTLOOK

Our 2022 Outlook remains encouraging as we believe the bank will continue to benefit from Rwanda's economic upswing with key events like the Commonwealth Heads of States and Governments Meeting slated for June 2022 but also internal milestones that will be realized as the BPR and KCBR merger continues. The harmonized and synchronized operations and products of both banks will likely transform the banking sector in Rwanda and can only lead to value creation for our customers and other stakeholders.

I thank you for the support and encouragement that you have extended to us in 2021 and hope you will join us in the exciting journey ahead.

Our Leaders

Executive Committee

George Odhiambo
Managing Director

Afrique Ramba
Head of Operations

Albert Akimanzi
Head of
Marketing,Corporate and
Citizenship

Christelle Kayihura
Head of Credit

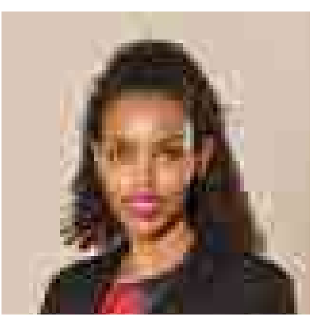
Our Leaders

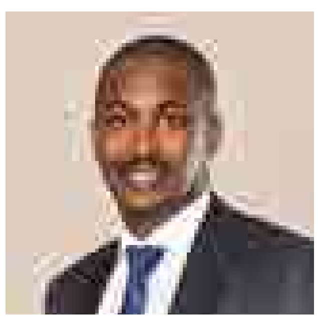

Paul Muchemi
Head of Finance

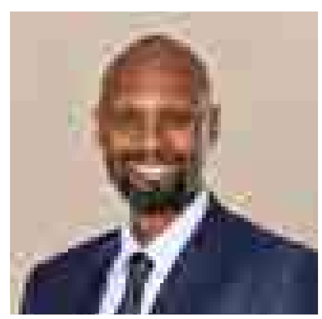

Stephen Ndahiro
Head of Compliance


Brice Manzi
Head of Legal

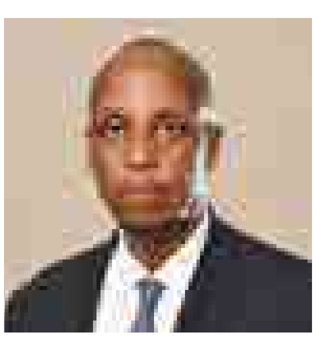

Eliane Uwizeyimana
Head of Treasury


Emmanuella Nzahabonimana
Head of IT and Cyber Security


Fabrice Munyakazi
Head of Risk


Innocent Ntwali
Head of Retail


Joel Mbyayingabo
Head of Audit


Johnny Matabishi
Head of Corporate


Lilian Batanyagwa
Head of Human Resource

Our Social Investment

Our Social Investments

SUPPORT TO GRACE ROOM MINISTRIES

As the year came to an end, during the month of December, Banque Populaire du Rwanda Plc partnered with Grace Room Ministries is a faith-based not-for-profit organization based in Kigali Rwanda. The ministry provides food for the hungry, clothe those in need and provides shelter and a home for those who cannot easily afford this, offers medical insurance to families in dire need of these services yet face a variety of access barriers, equip vulnerable youth with business skills and provide them with start-up capital so that they are empowered to improve their livelihoods. It is in this spirit that

Banque Populaire du Rwanda Plc partnered with the ministry in December during the festive season to share Christmas and put a smile on the faces of different families because we believe that each human being deserves to lead successful and dignified lifestyles. As a result BPR offered financial support worth **5 Million Francs** to support vulnerable families in Kigali city with:

- ***Payment of vocational tuition for nine (9) disadvantaged students for a 6 month vocational training program where to gain skills that will help them get employment opportunities and improve their lives and those of their families.***
- ***Payment of community-based health insurance (Mituelle de santé) for 300 vulnerable individuals identified and residing in different parts Kigali city.***
- ***Donation of food and other sanitary amenities to identified vulnerable members in Kigali city***

The unprecedented times of Covid19, have taught us that our business as a bank draws its existence from the wellbeing of the community therefore, we pledge our commitment to continue to take part in supporting and improving the wellbeing of the members of our community.

While Banque Populaire du Rwanda soars the heights of success in business, it has kept its feet on the ground to ensure it understands and cares for the needs of the communities that it serves.

SUPPORT TO AVEH UMURERWA CENTER

Banque Populaire du Rwanda Plc partnered with a local NGO AVEH Umurerwa that supports children with mental disability in Bugesera district and **Renovated the Kitchen**, **Repaired the Farm**, **provide basic needs items such as food** and **other home amenities** and **children's gifts**.

AVEH Umurerwa supports **104** Children in Total, divided into 2 groups; one group made of **97 children** who stay with their families and another group of **23 children**, who are supported from AVEH socialization center in Bugesera due to the size or AVEH UMURERWA accommodation capacity to date.

Banque Populaire du Rwanda's heritage is anchored in the community. Therefore, while we soar the heights of success in our business, we have kept our feet on the ground to ensure we understand and care for the needs of the communities that we serve.

BPR shares the same belief with AVEH UMURERWA that disability is not inability and that each child deserves to grow up in a loving and caring environment even when they were unfortunate to be born with any form of disability. As a result we partnered with AVEH UMURERWA to offer a support worth **8 Million Rwandan Francs** to support children with mental disability.

FINANCIAL STATEMENTS & NOTES
For the Year Ended 31 December 2021

Directors & Statutory Information

FOR THE YEAR ENDED 31 DECEMBER 2021

BANQUE POPULAIRE DU RWANDA PLC ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The Directors submit their report together with the audited financial statements for the year ended 31 December 2021 which disclose the state of affairs of Banque Populaire du Rwanda Plc (the "Bank" or the "Company").

PRINCIPAL ACTIVITIES

The Bank is engaged in the business of commercial banking.

RESULTS

Profit for the year of Frw 4.8 billion (2020: Profit of Frw 3.841 billion) has been added to the retained earnings of the Bank.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year (2020: Nil).

DIRECTORS

The Directors who held office during the year and to the date of this report were:

James Obuya Bagaka	Chairman (Non-executive)	Appointed on 25 August 2021
Patience Mutesi	Board member (Independent Non-executive)	Appointed on 31 January 2022
Diana Haguma	Board member (Independent Non-executive)	Appointed on 2 December 2020
Emmanuel Habineza	Board member (Non-executive)	Appointed on 14 June 2013
George Rubagumya	Board member (Independent Non-executive)	Appointed on 31 January 2022
Maurice Toroitich	Board member (Executive)	Appointed on 7 September 2017
Linda Kalimba Mulenga	Board member (Independent Non-executive)	Appointed on 15 February 2017
Paul Russo	Board member (Non-executive)	Appointed on 25 August 2021
Njuguna Ndung'u	Board member (Independent Non-executive)	Appointed on 19 May 2017
Beatrice Hamza Bassey*	Board member (Non-executive)	Resigned on 25 August 2021
Gerrit Muller*	Board member (Non-executive)	Resigned on 25 August 2021

**Resigned during the year*

REGISTERED OFFICE

The Bank is incorporated and domiciled in the Republic Rwanda as a Public limited liability company. The address of its registered office is

Banque Populaire du Rwanda Plc
P O Box 1348
KN 67 ST 2
Kigali
Rwanda

AUDITOR

The Bank's independent auditor's Price waterhouse Coopers Rwanda Limited, were appointed during the year in accordance with Law No.007/2021 of 05/02/2021 Governing companies and regulation No.14/2017 on accreditation and other requirements for external auditors of banks in Rwanda

BANKERS

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

BHF - Bank Aktiengesellschaft
Bockenheimer Landd Strasse 10,
P.O Box 60323
Frankfurt AM Main Germany

Directors & Statutory Information

FOR THE YEAR ENDED 31 DECEMBER 2021

Rabobank
Croeselan 18
3521 CB UTRECHT
Netherlands

EBI SA GROUPE ECOBANK
Les collines de l'Arche, Immeuble Concorde F
76 Route de la Demi-Lune
92057 Paris La Défense Cedex-France

African Banking Corporation Tanzania Limited
1st Floor Barclays House, Ohio Street
P.O Box 31
Dar-es-salaam
Tanzania

Equity Bank Rwanda Plc
P.O.Box 494
KN 4 Ave, Kigali
Kigali
Rwanda

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the directors held on **18 February 2022.**

Directors have the power to amend and reissue the financial statements.

BY ORDER OF THE BOARD

Company Secretary

Directors & Statutory Information

FOR THE YEAR ENDED 31 DECEMBER 2021

STATEMENT OF DIRECTORS RESPONSIBILITY

The Directors are responsible for the preparation of financial statements that give a true and fair view of the financial status of Banque Populaire du Rwanda Plc, as set out on pages 10 to 73, which comprise the statement of financial position as at 31 December 2021, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by Law No. 007/2021 of 05/02/2021 governing companies.

The Directors are also responsible for such internal controls as the Directors determine as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Bank to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The independent auditor is responsible for reporting on whether, based on their audit, the financial statements give a true and fair view in accordance with the International Financial Reporting Standards and in the manner required by Law No. 007/2021 of 05/02/2021 Governing companies.

Approval of financial statements

The financial statements of Banque Populaire du Rwanda Plc, as identified in the first paragraph, were approved and authorised for issue by the Board of Directors on **18 February 2022** and signed on its behalf by:

Managing Director

Chair - Board Audit Committee

Corporate Governance Statement

FOR THE YEAR ENDED 31 DECEMBER 2021

Banque Populaire du Rwanda Plc is committed to world class corporate governance standards as set from time to time by the National Bank of Rwanda and by itself in accordance with international best practice. The Board of Directors is responsible for the long-term strategic direction for profitable growth of the Bank whilst being accountable to the shareholders for compliance and maintenance of the highest corporate governance standards and business ethics.

THE BOARD OF DIRECTORS

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

BOARD MEETINGS

The Board of Directors meets quarterly or as required in order to monitor the implementation of the Bank's strategy, review its financial performance and approves decisions of a strategic nature. Specific reviews are also undertaken on business operations and future planning. At the end of each financial year, the Board reviews itself, Board Committees, Senior Management and Managing Director against targets agreed at the beginning of the year.

BOARD COMMITTEES

The Board has created the following principal committees which meet regularly under well-defined and materially delegated terms of reference set by the Board and in accordance with National Bank of Rwanda Regulation N° 01/2018 of 24/01/2018 on Corporate Governance for Banks

1. Risk Management Committee

The Risk Management Committee meets on a quarterly or as required to oversee the Bank's mitigation and appreciation of all risks in the business. It meets quarterly to consider and advise the business on all matters pertaining to credit, market, operations, legal, and environmental and other risks. Business continuity issues are also discussed by this committee.

2. Audit Committee

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

3. Remuneration and Nominations Committee

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

4. Credit Committee

The committee meets quarterly or as required to review the credit risk profile of the Bank and recommend to the Board for approval policies and standards of credit risk governance and management. The committee also reviews the Bank's credit risk appetite and sectorial concentration.

5. Strategy and Information Technology (IT) Committee

The committee meets quarterly or as required to review the Bank's IT governance and technology risk management and recommend to the Board for approval IT Strategy and Investment plan and management strategies and policies. It's also responsible for the implementation of the requirements provided in the laws and regulations on cyber security.

6. Procurement committee

The committee meets quarterly or as required to review the procurement policy directions and strategy and to evaluate and recommend to the Board for approval matters related to the review and development of the bank's procurement policies and procedures. This committee also oversees the implementation of the procurement processes and plan to ensure the bank's procurement procedures are conducted in a fair, transparent and non-discriminatory manner.

Corporate Governance Statement

FOR THE YEAR ENDED 31 DECEMBER 2021

RECORD OF BOARD/ COMMITTEE MEETINGS ATTENDANCE

The following table shows the record of attendance to the Board and Committee meetings for the year ended 31 December 2021.

MEETINGS HELD	MAIN BOARD	STRATEGY & IT CO	AUDIT	CREDIT	REMCO	RISK	PROCUREMENT
	4	4	4	4	4	4	1
James Obuya Bagaka*	1/4	1/4	x	x	x	x	1/1
Beatrice Hamza Bassey**	3/4	x	x	3/4	3/4	3/4	x
Diana Haguma	4/4	1/4	4/4	4/4	x	4/4	x
Emmanuel Habineza	4/4	3/4	4/4	4/4	1/4	x	x
Gerrit Muller**	3/4	x	3/4	3/4	x	3/4	x
Linda Kalimba Mulenga	4/4	1/4	1/4	3/4	4/4	4/4	x
Maurice Toroitich	4/4	3/4	x	x	3/4	3/4	1/1
Njuguna Ndung'u	4/4	4/4	x	x	4/4	1/4	
Paul Russo*	1/4	1/4	x	1/4	1/4	1/4	1/1

Appointed after Q 3 2021 BOD meetings
***** Resigned after Q 3 BOD meetings***

Management committees

The Board has delegated the daily management of the bank to the Managing Director supported by the various management committees. The following key management committees are in place to ensure that the Bank carries out its obligation efficiently and effectively.

- Executive Management Committee (EXCO)
- Assets and Liabilities Committee
- Credit committee
- Risk and Control Committee
- IT Steering Committee

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF BANQUE POPULAIRE DU RWANDA PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion
In our opinion, Banque Populaire du Rwanda Plc (the “Bank”/ “Company”)’s financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Law No. 007/2021 of 05/02/2021 Governing Companies.

What we have audited
The Company’s financial statements as set out in pages 37 to 102 comprise:

- The statement of financial position as at 31 December 2021;
- The statements of comprehensive income;
- The statement of changes in equity for the year then ended;
- The statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA code.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. The matter below was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF BANQUE POPULAIRE DU RWANDA PLC

Key audit matters (continued)

Expected credit losses on loans and advances at amortised cost	How key audit matter was addressed in the audit
Loans and advances to customers comprise a significant portion of the Bank's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL. Changes to the assumptions and estimates used by management could generate significant fluctuations in the Bank's financial results and materially impact the valuation of the portfolio of loans and advances. In addition, the evolving economic impact of the COVID-19 pandemic has heightened the general risk of credit default and significant increase in credit risk, increasing the uncertainty around the management judgements and estimation process. The policies for estimating ECL are explained in note 32(a) of the financial statements. The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include: • the judgments made to determine the categorisation (staging) of individual loan and advances accounts in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used; • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments of loans and advances, including any adjustments in relation to COVID-19 overlays; and • the appropriateness of forward-looking information used in the model; • the conceptual logic, soundness and accuracy of the expected credit losses models used by the Bank • the relevance of forward-looking information used in the models; and • Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.	Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included: • We evaluated the Bank's methodology for determining ECL and evaluated this against the requirements of IFRS 9; • We tested how the Bank extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD as per the Bank's IT system and the respective customer files; • We evaluated judgments applied in the staging of loans and advances; • Obtained an understanding of the basis used to determine the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) and the COVID-19 impact overlays; • For LGD, we tested the assumptions on the timing of the cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports; • We tested the completeness and accuracy of the historical data used in derivation of PDs, LGDs and EADs, and re-calculated the outcomes on a sample basis. For LGD, we tested the assumptions on the timing of the cash flows based on historical empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports. • We tested, on a sample basis, the reasonableness of EAD for both on and off balance sheet exposures; • For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information; • We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

Other information

Directors are responsible for the other information. The other information comprises the Report of Directors, Statement of directors' responsibilities and corporate information which we obtained prior to the date of this auditor's report, and the other information that will be included in the intergrated report which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon.

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF BANQUE POPULAIRE DU RWANDA PLC

Other information (continued)

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information that will be included in the intergrated report, if we conclude that there is material misstatement there in, we are required to communicate the matter to the directors.

Responsibilities of the directors for the financial statements

Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of Law No. 007/2021 of 05/02/2021 Governing Companies, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Directors are also responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF BANQUE POPULAIRE DU RWANDA PLC

Auditor's responsibilities for the audit of the financial statements (continued)

significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Law No. 007/2021 of 05/02/2021 Governing Companies requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

1. We have no relationship, interest or debt with Banque Populaire du Rwanda Plc. As indicated in our report on the financial statements, we have complied with the required ethical requirements. These are the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) which includes comprehensive independence and other requirements;
2. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
3. In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
4. We have communicated to the Company's Board of Directors, through a separate management letter, internal control matters identified in the course of our audit including our recommendations in relation to those matters.
5. According to the best of the information and the explanations given to us as auditors, as shown by the accounting and other documents of the company, the annual accounts comply with Article 125 of Law No. 007/2021 of 05/02/2021 Governing Companies.

For PricewaterhouseCoopers Rwanda Limited, Kigali,

Moses Nyabanda
Director

31 March 2022

Financial Statement

FOR THE YEAR ENDED 31 DECEMBER 2021

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2021	2020
		Frw'000	**Frw'000**
Interest income	1	41,395,795	38,196,017
Interest expense	2	(12,408,805)	(12,098,441)
Net interest income		**28,986,990**	**26,097,576**
Fee and commission income	3 (a)	8,746,794	7,196,542
Fee and commission expense	3 (b)	(1,265,567)	(969,658)
Net fee and commission income		**7,481,227**	**6,226,884**
Net foreign exchange income	4	(189,899)	1,086,598
Other operating income	5	358,535	548,296
Total operating income before impairment charge		**36,636,853**	**33,959,354**
Impairment charge on financial assets	13	(4,530,571)	(3,089,456)
Impairment charges for non-current asset held for sale	15	(120,000)	(368,000)
Total impairment charge		(4,650,571)	(3,457,456)
Total operating income after impairment charge		**31,986,282**	**30,501,898**
Operating expenses	6	(9,957,354)	(9,541,141)
Employee benefits	7	(11,211,699)	(11,533,077)
Depreciation and amortization	16,17	(3,573,992)	(4,122,436)
Total operating expenses		**(24,743,045)**	**(25,196,654)**
Profit before income tax		**7,243,237**	**5,305,244**
Income tax expense	8	(2,442,944)	(1,463,894)
Profit for the year		**4,800,293**	**3,841,350**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Changes in revaluation of land and buildings	28	**324,810**	(82,079)
Other comprehensive income (net of tax)		**324,810**	**(82,079)**
Total comprehensive income for the year		**5,125,103**	**3,759,271**

The notes set out on pages 41 to 102 form an integral part of these financial statements.

Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

STATEMENT OF FINANCIAL POSITION

	Notes	2021	2020
		Frw'000	Frw'000
ASSETS			
Cash and balances with the National Bank of Rwanda	9	25,631,888	38,162,143
Amounts due from banks	10	25,175,054	13,656,998
Government securities	11	137,976,557	133,614,762
Loans and advances	12	194,551,641	183,895,414
Current income tax recoverable	25 (b)	4,119,051	3,003,387
Other assets	14	3,570,530	2,528,042
Non-current asset held for sale	15	-	120,000
Intangible assets	16	508,138	821,434
Property and equipment	17	24,096,078	26,758,961
Right of use asset	18	1,949,665	2,308,808
TOTAL ASSETS		**417,578,602**	**404,869,949**
LIABILITIES			
Deposit from customers	19	247,495,533	236,557,349
Deposit from financial institutions	20	94,107,663	101,512,532
Provision for legal claims	21	818,836	343,006
Credit funds	22	1,187,337	368,596
Borrowings	23	5,717,543	1,252,417
Other payables	24	6,118,516	11,014,295
Due to related parties	29 (b)	100,966	-
Deferred income tax	25 (a)	1,471,268	2,242,902
Current income tax	25 (c)	3,214,579	1,269,962
Lease Liability	26	1,842,965	2,149,812
TOTAL LIABILITIES		**362,075,206**	**356,710,871**
EQUITY			
Share capital	27 (a)	43,466,413	43,466,413
Share premium	28 (b)	3,901,857	1,357,832
Revaluation reserves	28 (a)	1,101,308	1,426,118
Retained earnings/(losses)	28	7,033,818	1,908,715
TOTAL EQUITY		**55,503,396**	**48,159,078**
TOTAL EQUITY AND LIABILITIES		**417,578,602**	**404,869,949**

The financial statements on pages 37 to 102 were approved for issue by the Board of Directors on **18 February 2022** and signed on its behalf by:

Managing Director **Chair - Board of Audit committee**

The notes set out on pages 41 to 102 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Revaluation reserves	Retained earnings /(losses)	Total
		Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Year ended 31 December 2021						
As at 1 January 2021		43,466,413	1,357,832	1,426,118	1,908,715	48,159,078
Comprehensive income						
Profit for the year		-	-	-	4,800,293	4,800,293
**Other comprehensive income		-	-	(324,810)	324,810	-
Total comprehensive income for the year		**-**	**-**	**(324,810)**	**5,125,103**	**4,800,293**
Transactions with equity holders of the Bank						
Contributions of equity net of transaction costs	27 (b)	-	2,544,025	-	-	**2,544,025**
		-	**2,544,025**	**-**	**-**	**2,544,025**
As at 31 December 2021		**43,466,413**	**3,901,857**	**1,101,308**	**7,033,818**	**55,503,396**
Balance at 1 January 2020		43,466,413	1,357,832	1,508,197	(1,932,635)	44,399,807
Comprehensive income						
Profit for the year		-	-	-	3,841,350	3,841,350
**Other comprehensive income		-	-	(82,079)	-	(82,079)
Total comprehensive income for the year		**-**	**-**	**(82,079)**	**3,841,350**	**3,759,271**
As at 31 December 2020		**43,466,413**	**1,357,832**	**1,426,118**	**1,908,715**	**48,159,078**

** Other comprehensive income comprises of movement in revaluation reserves for land and buildings derecognized during the year.

The notes set out on pages 41 to 102 form an integral part of these financial statements.

Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December: 2021	2020
		Frw'000	Frw'000
Net cash generated by (used in) operating activities	30 (b)	**7,931,611**	**22,443,618**
Cash flows from investing activities			
Payment of intangible assets including transfers from PPE	16	(271,346)	(176,000)
Payment of property and equipment	17	(350,251)	(11,681,005)
Payment of right of use assets	18	(641,322)	(9,736)
Proceeds from sale of property and equipment		94,745	111,562
Net cash used in investing activities		**(1,168,174)**	**(11,755,179)**
Cash flows from financing activities			
Additional capital		2,544,025	-
Proceeds from borrowings	23	4,731,726	821,902
Payment of lease liabilities	26	(867,743)	(847,337)
Additions – Lease liabilities	26	641,322	44,958
Repayment of borrowings	23	(222,665)	(1,939,530)
Net additions/(Repayment) of credit fund	22	818,741	(10,645)
IFRS 9 adjustment on ERF funds	23	(180,494)	(182,752)
Net cash from financing activities		**7,464,912**	**(2,113,404)**
Increase in cash and cash equivalents		**14,228,349**	**8,575,035**
Cash and cash equivalents at start of year	30	**65,291,502**	**55,644,771**
Effects of currency translation on cash and cash equivalents		**721,421**	**1,071,696**
Cash and cash equivalents at end of year	30	**80,241,272**	**65,291,502**

The notes set out on pages 41 to 102 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1	Interest income	2021	2020
		Frw'000	Frw'000
	Loans and advances	28,659,986	27,812,425
	Government securities	12,427,734	10,135,649
	Forex swap contract with National Bank of Rwanda	-	2,465
	IFRS 9 adjustment – notional benefit	308,075	245,478
		41,395,795	**38,196,017**

2	Interest expense		
	Interest on deposits from customers	9,280,866	10,073,504
	Interest on deposits from financial institutions	2,811,050	1,820,251
	Interest on borrowings	136,559	64,749
	Interest on forex swap	-	8,727
	Lease financing	122,169	131,210
	IFRS 9 adjustment – notional benefit	58,161	-
		12,408,805	**12,098,441**

3	Fees and commissions		
(a)	***Fees and commissions income***		
	Commissions on loan services	2,704,204	2,207,489
	Commissions on operations of accounts	1,916,745	2,045,036
	Commission on payment facilities	445,840	451,971
	Commissions on funds transfers	894,057	796,228
	Commissions earned on salary processing services	712,759	624,468
	Commission on mobile banking	1,552,508	553,594
	Commissions on transactions	520,681	517,756
		8,746,794	**7,196,542**
(b)	***Fees and commissions expense***		
	Card management fee	(134,035)	(142,318)
	Commissions on transactions	(669,463)	(389,640)
	Mobile banking charges	(221,586)	(195,975)
	Commissions on payment facilities	(240,483)	(241,725)
		(1,265,567)	**(969,658)**
	Net fees and commissions	**7,481,227**	**6,226,884**

Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

4 Net foreign exchange income	2021	2020
	Frw'000	Frw'000
Income from FX trading	1,069,239	2,097,130
Losses on foreign exchange differences	(1,259,138)	(1,010,532)
	(189,899)	**1,086,598**

5 Other operating income		
Other income	177,580	156,951
Gain on disposal of assets	70,962	48,578
Insurance and risk provision recoveries	20,038	28,944
Miscellaneous income	89,955	313,823
	358,535	**548,296**

6 Operating expenses		
Rent, repairs and maintenance	1,007,858	1,063,015
Vehicle operating cost	56,659	71,915
Utilities	386,493	435,162
ATM maintenance and related cost	74,595	74,316
IT related costs	2,684,664	2,370,371
Audit fees	91,790	108,400
Marketing expenses	111,068	143,634
Local taxes	105,374	102,858
Subscriptions	23,457	44,251
Other professional fees	557,729	230,213
Credit reporting related cost	92,780	77,018
Legal expenses	163,440	173,267
Litigations	571,032	276,862
Archive services	201,306	206,188
Security expenses	481,158	511,192
Travel and accommodation	158,233	177,622
Cash in transit cost	400,940	460,253
Recovery cost	61,887	194,425
Printing, Stationery and office supplies	364,909	289,650
Statutory fees	352,197	332,194
Charitable donation	35,312	85,978
Courier services	90,122	94,827
Training costs	141,749	65,645
Communication expenses	149,546	129,309
Board sitting allowances	356,476	320,824

Notes to the financial statement (continued)

6 Operating Expenses (continued)

	2021	2020
	Frw'000	Frw'000
Repair and maintenance costs	108,892	119,509
Insurance costs	115,405	48,752
Shareholder and related costs	113,868	25,828
Fines and penalties	11,780	6,791
Other expenses	399,895	98,871
Impairment losses and write-offs	16,889	1,022,874
Bank charges	469,584	113,525
Other fee expenses	267	65,602
	9,957,354	**9,541,141**

7 Employee benefits

Salaries and wages	9,802,120	9,907,550
Contributions to Rwanda Social Security Board	412,320	455,866
Medical expenses	620,940	633,460
Other staff costs	177,968	290,723
IFRS 9 adjustment – notional benefit	198,351	245,478
	11,211,699	**11,533,077**

8 Income tax expense

Current income tax charge	3,214,578	1,269,962
Deferred income tax (credit)/charge (Note 25 a)	(778,657)	806,199
Prior year (over)\under provision of deferred income tax	7,023	(612,267)
	2,442,944	**1,463,894**

The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	Effective Tax rate	2021 Frw'000	Effective tax rate	2020 Frw'000
Profit before income tax		7,243,237		5,305,244
Tax calculated at the statutory income tax rate of 30% (2020: 30%)		2,172,971	30.00%	1,591,573
Tax effect of:				
Non- deductible expenses	3.56%	262,950	9.13%	484,588
Tax exempt income	0.00%	-	0.00%	-
Overprovision of deferred tax in prior years	0.10%	7,023	-11.54%	(612,267)
Income tax in the statement of comprehensive income	33.66%	**2,442,944**	27.59%	**1,463,894**

Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

9 Cash and balances with National Bank of Rwanda	2021	2020
	Frw'000	Frw'000
Cash on hand	12,897,010	13,005,151
Balances with the National Bank of Rwanda	12,812,091	25,234,205
ECL on cash held with BNR	(77,213)	(77,213)
	25,631,888	**38,162,143**

10 Amounts due from banks		
BHF - Bank Aktiengesellschaft	12,538,366	12,133,051
EBI SA GROUPE ECOBANK	8,250,215	305,060
Rabobank	4,400,545	1,232,469
African Banking Corporation Tanzania	2,066	2,565
Equity Bank Rwanda Plc	21	12
ECL on amounts due from banks	(16,159)	(16,159)
	25,175,054	**13,656,998**

Amounts due from banks relates to transactional accounts held in correspondent banks which are non-interest bearing

11 Government securities		
Treasury bills issued by the Government of Rwanda	94,054,616	99,114,844
Treasury bonds issued by the Government of Rwanda	44,444,155	35,022,132
Expected credit loss	(522,214)	(522,214)
	137,976,557	**133,614,762**

The maturity profile of treasury bills is as follows:

Treasury bills maturing:		
- within 90 days from the date of acquisition	40,622,283	23,835,422
- within 91 days to 1 year from the date of acquisition	53,432,333	75,279,422
	94,054,616	**99,114,844**

Treasury bonds have a maturity period of between 3 years and 20 years with effective interest rate of 11.98% p.a (2020: 11.94 p.a). The effective rate for treasury bills is 7.90% p.a (2020: 7.65% p.a)

Notes to the financial statement (continued)

12	Loans and advances	2021	2020
	a) Carrying amount	**Frw'000**	**Frw'000**
	Overdrafts	16,140,699	26,748,262
	Term loans	112,914,046	101,265,023
	Mortgages**	77,725,360	65,316,309
	IFRS 9 Adjustment on loans and advances to staff	(1,068,841)	(906,334)
	IFRS 9 Adjustment on Economic recovery fund facilities	(1,132,964)	(178,214)
	Gross loans	**204,578,300**	**192,245,046**
	Expected credit loss for loans and advances	(10,026,659)	(8,349,632)
	Net loans and advances	**194,551,641**	**183,895,414**

** Loans and advances secured by commercial and/or residential properties.

b) Impairment provisions

Movements in provisions for expected credit losses for loans and advances are as follows

	Stage 1	Stage 2	Stage 3	Total
Year ended 31 December 2021	**Frw'000**	**Frw'000**	**Frw'000**	**Frw'000**
At start of year	2,876,378	529,745	4,943,509	8,349,632
Impairment charge on loans and advances	284,680	(217,073)	5,379,302	5,446,909
- transfers from stage 1 to stage 2	(292,061)	292,061	-	-
- transfers from stage 2 to stage 1	153,053	(153,053)	-	-
- transfers to stage 3	(50,586)	(148,743)	199,329	-
- transfers from stage 3	217,470	39,891	(257,361)	-
Loans derecognized	-	(8)	(3,769,874)	(3,769,882)
	312,556	**(186,925)**	**1,551,396**	**1,677,027**
At end of year	**3,188,934**	**342,820**	**6,494,905**	**10,026,659**

	Stage 1	Stage 2	Stage 3	Total
	Frw'000	**Frw'000**	**Frw'000**	**Frw'000**
Year ended 31 December 2020				
At start of year	2,194,101	260,419	4,165,372	6,619,892
Impairment charge on loans and advances	670,677	169,122	2,884,575	3,724,374
- transfers from stage 1 to stage 2	(98,669)	98,669	-	-
- transfers from stage 2 to stage 1	66,516	(66,516)	-	-
- transfers to stage 3	(42,296)	58,245	(15,949)	-
- transfers from stage 3	86,049	9,858	(95,907)	-
Loans derecognized	-	(52)	(1,994,582)	(1,994,634)
	682,277	**269,326**	**778,137**	**1,729,740**
At end of year	**2,876,378**	**529,745**	**4,943,509**	**8,349,632**

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Notes to the financial statement (continued)

13	Impairment charges on financial assets	2021	2020
		Frw' 000	**Frw' 000**
	Impairment charge on loans and advances raised during the year	5,446,909	3,724,374
	Impairment charge on Government securities and guarantees	-	106,627
	Impairment charge on placements and bank balances	-	93,373
	Impairment charge on guarantees and off-balance sheet items	18,791	165,249
	Recoveries on loans and advances previously derecognized	(935,129)	(1,000,167)
		4,530,571	**3,089,456**

14	Other assets		
	Prepayments	1,045,527	1,086,102
	Inventory	92,440	142,048
	Clearing and transit accounts	52,371	3,520
	Other receivables	178,387	211,824
	IFRS 9 Adjustment on loans and advances to staff	1,068,841	906,334
	IFRS 9 Adjustment on Economic recovery fund facilities	1,132,964	178,214
		3,570,530	**2,528,042**

15	Non-current assets held for sale		
	Acquired land		
	Acquisition value	838,000	838,000
	Impairment held	(838,000)	(718,000)
	Carrying amount	**-**	**120,000**

In the ordinary course of business, the bank may acquire property held as collateral following the foreclosure on loans that are in default. The acquisition process is done through public auction and in accordance with the existing regulation and Registrar General guidelines on public auction. The acquired properties are measured at the lower of carrying amount and fair value less costs to sell. According to Central Bank guidelines, the acquired assets are to be disposed off to third parties within 365 days from the date of acquisition. However due to market constraints posed by COVID-19 pandemic, the bank opted to hold the assets beyond the 365 days and hold full impairment provision awaiting normalization of the real estate market.

Notes to the financial statement (continued)

16 Intangible assets	2021	2020
	Frw' 000	Frw' 000
Net book value as at 1 January:	821,434	1,772,223
Additions	247,577	99,093
Write-off	-	(283,886)
Reclassification from property and equipment (note 17)	23,769	76,907
Amortisation charge	(584,642)	(842,903)
Net book value as at 31 December	**508,138**	**821,434**
At 31 December:		
Cost	8,009,689	7,738,343
Accumulated amortization	(7,501,551)	(6,916,909)
	508,138	**821,434**

Intangible assets relate to computer software and licenses

Notes to the financial statements (continued)

17 Property and equipment

	Land	Buildings	Computer equipment	Motor vehicles	Equipment, Furniture & fittings	Leasehold improvements	Work in progress	Total
	Frw '000	Frw '000	Frw '000	Frw '000	Frw '000	Frw '000	Frw '000	Frw '000
Cost / valuation								
As at 1 January 2021	890,160	22,491,473	10,356,930	1,507,729	7,435,415	1,598,180	123,192	**44,403,079**
Additions	-	-	285,509	-	9,075	-	56,024	**350,608**
Disposals	-	-	(44,123)	(519,876)	-	-	(8,000)	**(571,999)**
Reinstatement	-	39,121	-	-	-	-	-	**39,121**
Reclassification to intangible assets (Note 16)	-	-	-	-	-	-	(23,769)	**(23,769)**
Balance as at 31 December 2021	**890,160**	**22,530,594**	**10,598,316**	**987,853**	**7,444,490**	**1,598,180**	**147,447**	**44,197,040**
Accumulated depreciation								
As at 1 January 2021	-	(4,542,180)	(7,072,045)	(1,064,489)	(3,947,605)	(1,017,799)	-	**(17,644,118)**
Charge for the year	-	(645,356)	(1,533,258)	-	(644,145)	(166,592)	-	**(2,989,351)**
Disposals	-	-	44,123	504,093	-	-	-	**548,216**
Reinstatement	-	(15,709)	-	-	-	-	-	**(15,709)**
Balance as at 31 December 2020	**-**	**(5,203,245)**	**(8,561,180)**	**(560,396)**	**(4,591,750)**	**(1,184,391)**	**-**	**(20,100,962)**
Net book amount as at 31 December 2021	**890,160**	**17,327,349**	**2,037,136**	**427,457**	**2,852,740**	**413,789**	**147,447**	**24,096,078**

*The total amount paid during the year for additions (Frw 350,251) is included in investing activities for the purposes of the statement of cash flows.

**Work in progress includes on-going projects for refurbishment of branches.

Notes to the financial statements (continued)

17 Property and equipment (continued)

	Land Frw '000	Buildings Frw '000	Computer equipment Frw '000	Motor vehicles Frw '000	Equipment, Furniture & fittings Frw '000	Leasehold improvements Frw '000	Work in progress Frw '000	Total Frw '000
Cost / valuation								
As at 1 January 2020	904,984	22,654,511	9,982,644	1,899,155	7,048,181	1,443,180	1,423,116	**45,355,771**
Additions	-	98,929	350,439	-	72,234	56,368	141,539	**719,509**
Disposals	(14,824)	(238,120)	-	(391,426)	-	-	(944,254)	**(1,588,624)**
Reclassifications	-	(23,847)	23,847	-	315,000	98,632	(413,632)	**-**
Transfer to stocks	-	-	-	-	-	-	(6,670)	**(6,670)**
Reclassification to intangible assets (Note 16)	-	-	-	-	-	-	(76,907)	**(76,907)**
Balance as at 31 December 2020	**890,160**	**22,491,473**	**10,356,930**	**1,507,729**	**7,435,415**	**1,598,180**	**123,192**	**44,403,079**
Accumulated depreciation								
As at 1 January 2020	-	(4,041,508)	(5,456,055)	(1,424,078)	(3,213,937)	(810,392)	-	**(14,945,970)**
Charge for the year	-	(703,427)	(1,615,990)	(19,042)	(733,668)	(207,407)	-	**(3,279,534)**
Disposals	-	202,755	-	378,631	-	-	-	**581,386**
Balance as at 31 December 2020	**-**	**(4,542,180)**	**(7,072,045)**	**(1,064,489)**	**(3,947,605)**	**(1,017,799)**	**-**	**(17,644,118)**
Net book amount as at 31 December 2020	**890,160**	**17,949,293**	**3,284,885**	**443,240**	**3,487,810**	**580,381**	**123,192**	**26,758,961**

*The total amount paid during the year for additions (Frw 11,681,005) is included in investing activities for the purposes of the statement of cash flows and includes statement of the balance on the building.

**Work in progress includes on going projects for refurbishment of branches.

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statements (continued)

17 Property and equipment (continued)

Carrying amounts that would have been recognised if land and buildings were stated at cost.
Land and buildings are initially recorded at cost which includes all costs necessary to bring the asset to working condition for its intended use. Periodically on subsequent measurement, the valuation is carried out by an independent valuer to determine their fair value. The revaluation surplus net of applicable deferred income taxes is credited to other comprehensive income and is shown in revaluation reserves in shareholders' equity. Revaluation reserve is not available for shareholders' distribution.

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	31 December 2021		31 December 2020	
	Frw' 000	Frw' 000	Frw' 000	Frw' 000
	Land	Building	Land	Building
Cost	780,639	20,739,640	780,639	20,700,519
Accumulated depreciation	-	(5,291,860)	-	(4,630,795)
	780,639	**15,447,780**	**795,463**	**16,733,434**

18 Right of Use

Right of use relates to leased branches and represents the banks right to use the assets over the life of the leases. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches. The initial lease liability is the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate of 5.5% p.a. The leases typically run for a period of 5 years, with an option to renew the lease after that date.

	2021			2020		
	Leasehold premises	Leased equipment	Total	Leasehold premises	Leased equipment	Total
	Frw '000	Frw '000	Frw '000	Frw '000	Frw '000	Frw '000
Cost						
At the start of the year	3,778,160	-	3,778,160	3,778,160	-	3,778,160
Additions	-	641,322	641,322	-	-	-
Terminations	(274,408)	-	(274,408)	-	-	-
At end of year	**3,503,752**	**641,322**	**4,145,074**	**3,778,160**	**-**	**3,778,160**
Amortization						
At the start of the year	(1,469,352)	-	(1,469,352)	(755,632)	-	(755,632)
Charge for the year	(701,980)	(106,887)	(808,867)	(713,720)	-	(713,720)
Terminations	82,810	-	82,810	-	-	-
At end of year	**(2,088,522)**	**(106,887)**	**(2,195,409)**	**(1,469,352)**	**-**	**(1,469,352)**
Carrying amount at end of year	**1,415,230**	**534,435**	**1,949,665**	**2,308,808**	**-**	**2,308,808**

Notes to the financial statement (continued)

19	Deposits from customers	2021	2020
		Frw'000	Frw'000
	Current and demand deposits	165,044,211	160,734,343
	Term deposits	57,914,027	59,658,084
	Savings accounts	24,537,295	16,164,922
		247,495,533	**236,557,349**

Customers' deposits only include financial instruments classified as liabilities at amortised cost.

Interest earning fixed and demand deposits are at fixed interest rates. The average weighted effective interest rates on interest earning deposits for the year ended 31 December 2021 was 9.59% p.a (2020: 9.63% p.a)

20	Deposits from financial institutions		
	Repurchase agreements with National Bank of Rwanda	22,955,032	29,056,880
	Money market deposits – local banks	23,005,255	18,005,858
	Deposits from local banks	32,474,322	38,255,880
	Savings and Credit Cooperative Organizations	11,802,714	11,979,032
	Insurance companies	3,870,340	4,214,882
		94,107,663	**101,512,532**

Interest earning fixed and demand deposits are at fixed interest rates. The average weighted effective interest rates on interest earning deposits for the year ended 31 December 2021 was 5.48% p.a (2020: 5.95% p.a)

21	Provision for legal claims	2021	2020
		Frw' 000	Frw' 000
	As at 1 January	343,006	673,180
	Provision charge during in the year	674,437	271,389
	Provision write back during the year	(103,905)	(41,939)
	Payments made during the year	(94,702)	(559,624)
	As at 31 December	**818,836**	**343,006**

22 Credit funds

Credit funds relate to financing received from the Government of Rwanda and its agencies and other public development partners for advancing to defined development projects and economic sectors, including the agricultural sector.

The funds are non-interest earning and are measured at their amortised cost.

The movement in the credit funds during the year was as below

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Notes to the financial statement (continued)

22 Credit funds (continued)

	2021 Frw' 000	2020 Frw' 000
As at 1 January	368,596	379,241
Additional funds received	1,011,161	98,798
Re-paid during the year	(192,420)	(109,443)
As at 31 December	**1,187,337**	**368,596**

22 Credit funds

	2021 Frw' 000	2020 Frw' 000
Community Development Fund	362	362
CNJ Rwanda	6,019	6,019
DEFLATE Rwanda	123059	125,680
FIR Rwanda	23,712	23,712
Rural Investment Facility 2	22645	51,043
Rural Sector Support Project, Rwanda	50,630	50,630
Value Chain Development Fund	129	129
Business Development Fund	94,230	94,230
Other credit funds	16,791	16,791
Socio Economic Inclusion of Refugees and Host Communities	849,260	-
	1,186,837	**368,596**

23 Borrowings

	Currency	Rate p.a	2021 Frw' 000	2020 Frw' 000
Export Growth Facility (EGF) -BRD	Frw	4.00%	3,613,596	613,267
Economic Recovery Fund (ERF) Facility -BNR	Frw	2.00%	2,467,193	821,902
			6,080,789	**1,435,169**

	2021	2020
Opening balance	1,435,169	2,488,048
Additional debt	4,731,726	821,902
Interest expense	136,559	64,749
Interest paid	(118,166)	(64,817)
Debt- repayment	(104,499)	(1,874,713)
IFRS 9 adjustment – ERF	(363,246)	(182,752)
Closing Balance	**5,717,543**	**1,252,417**

The above facilities are not secured.

Notes to the financial statement (continued)

23 Borrowings (continued)

Export Growth Facility
The facility is provided by The Development Bank of Rwanda "BRD" for funding loans to export oriented small scale and medium enterprises (SMEs) in Rwanda at a preferential rate for a tenor of Frw 9 years starting from June 2017 and April 2021.

Economic Recovery Fund (ERF) Facility
In 2020, The Government of Rwanda established the Economic Recovery Fund to support the recovery of businesses hardest hit by COVID-19 pandemic so they can survive, resume operations and safeguard employment, thereby cushioning the economic effects of the pandemic. The tenor of the facility is between two to five years.

This section sets out an analysis of net debt and the balances in net debt for each of the years presented.

Net debt	**2021**	**2020**
	Frw'000	**Frw'000**
Cash and cash equivalents	25,709,101	38,239,356
Cash reserve requirement	(11,281,325)	(10,456,433)
Amount due from banks	25,191,214	13,673,157
Liquid investments	40,622,284	23,835,422
Borrowings	(5,717,543)	(1,435,169)
Lease liabilities	(1,842,965)	(2,149,812)
Net debt	**72,680,766**	**61,706,521**

24 Other payables

In transit clearing account balances	534,170	5,721,786
Accrued expenses	2,114,765	2,141,987
Other trade payables	386,623	557,186
Cash collateral	418,053	386,191
Transit accounts	693,921	336,900
Cash guarantee	234,599	503,031
Deferred income	201,043	358,054
Other provisions	239,785	9,146
Staff leave accrual	66,360	38,292
Amounts due to Government bodies	743,469	649,870
Amounts due to pension funds	119,948	126,565
Amounts due to employees	2,534	2,535
IFRS 9 adjustment – unearned ERF benefit	363,246	182,752
Other payables net of amount paid for the buildings	**6,118,516**	**11,014,295**

Notes to the financial statement (continued)

24 Other payables (continued)

25 Income tax expense

(a) Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2020: 30%). The movement on the deferred income tax account is as follows:

	2021 Frw'000	2020 Frw'000
As at start of year	(2,242,902)	(2,048,970)
Prior year under provision (Note 8)	(7,023)	612,267
Charge to profit and loss (Note 8)	778,657	(806,199)
	(1,471,268)	**(2,242,902)**

(b) Current income tax recoverable

Balance as at 1 January	3,003,387	1,914,554
Additional WHT paid	2,273,137	1,157,473
Utilised during the year	(1,157,473)	(68,640)
Balance as at 31 December	**4,119,051**	**3,003,387**

(c) Current income tax payable

Balance as at 1 January	1,269,962	-
Charge for the year	3,214,579	1,269,962
Paid during the year	(1,269,962)	-
Balance as at 31 December	**3,214,579**	**1,269,962**

The deferred income tax liability, deferred income tax charge/(credit) to profit and loss (PL) and deferred income tax charge to other comprehensive income (OCI) are attributable to the following items:

				Balances at 31 December		
	1 January Frw'000	Prior year under provision Frw'000	Charged/ (Credited) to PL Frw'000	Net Frw'000	Deferred tax asset Frw'000	Deferred income tax Frw'000
Year ended 31 December 2021						
Property and equipment	(3,755,687)	(7,023)	443,450	(3,319,260)		(3,319,260)
Legal provision	102,902	-	142,749	245,651	245,651	-
Leave provision	11,488	-	8,420	19,908	19,908	-
Other provision	179,255	-	108,725	287,980	287,980	-
IFRS 16 leases	40,639	-	37,624	78,263	78,263	-
IFRS 9 Provision - Loans	1,021,837	-	37,689	1,059,526	1,059,526	-
IFRS 9 Provision - Securities	156,664	-	-	156,664	156,664	-
	(2,242,902)	**(7,023)**	**778,657**	**(1,471,268)**	**1,847,992**	**(3,319,260)**

Notes to the financial statement (continued)

25 Income tax expense (continued)

(c) Current income tax payable

				Balances at 31 December		
	1 January	Prior year under provision	Charged/ (Credited) to PL	Net	Deferred tax asset	Deferred income tax
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Year ended 31 December 2020						
Property and equipment	(4,145,542)	(124,089)	513,944	(3,755,687)	-	(3,755,687)
Legal provision	201,954	-	(99,052)	102,902	102,902	-
Leave provision	19,709	-	(8,221)	11,488	11,488	-
Other provision	369,893	-	(190,638)	179,255	179,255	-
IFRS 16 leases	(184,986)		225,625	40,639	40,639	-
IFRS 9 Provision - Loans	19,651	736,356	265,830	1,021,837	1,021,837	-
IFRS 9 Provision - Securities	-	-	156,664	156,664	156,664	-
Tax loss	1,670,351	-	(1,670,351)	-	-	-
	(2,048,970)	**612,267**	**(806,199)**	**(2,242,902)**	**1,512,785**	**(3,755,687)**

26 Lease liability

The bank initially applied IFRS 16 at 1 January 2019, which requires the recognition of right-of-use assets and lease liabilities for branch lease contracts that were previously classified as operating leases. The leases typically run for a period of 5 years, with an option to renew the lease after that date.

	2021	2020
	Frw'000	Frw'000
At the start of the year	2,149,812	2,820,981
Additions during the year	641,322	44,958
Interest expense (included in finance cost)	122,169	131,210
Terminations in the year	(202,595)	-
Lease payments in the year	(867,743)	(847,337)
At end of year	**1,842,965**	**2,149,812**

Lease liabilities are presented in the statement of financial position as follows:

	2021	2020
	Frw'000	Frw'000
Current	935,341	839,336
Non-Current	907,624	1,310,476
	1,842,965	**2,149,812**

The statement of profit or loss shows the following amounts relating to leases:

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Notes to the financial statement (continued)

26 Lease liability (continued)

	2021 Frw'000	2020 Frw'000
Depreciation charge of right-of-use assets		
Buildings	701,980	702,493
Equipment	106,887	-
Expense relating to short-term leases (included in administrative expenses)		
Buildings	141	18,023
Equipment	31,431	79,255
Interest expense		
Buildings	94,719	131,210
Equipment	27,450	-

27 Share capital and share premium

a) Share capital	**2021 Frw'000**	**2020 Frw'000**
Authorised share capital (43,500,000 shares with par value of Frw 1,000)	43,500,000	43,500,000
Issued and fully paid shares (43,466,413 shares)		
As at 1 January	43,466,413	43,466,413
Balance as at 31 December	**43,466,413**	**43,466,413**

The shareholding structure as at 31 December 2021:

	No. of Shares	Par Value - Frw	Value- Frw	%
Individual shareholders (Local)	10,139,969	1,000	10,139,969,000	23.33%
KCB Group Plc	33,326,444	1,000	33,326,444,000	76.67%
TOTAL	**43,466,413**	**1,000**	**43,466,413,000**	**100.00%**

The shareholding structure as at 31 December 2020:

	No. of Shares	Par Value - Frw	Value- Frw	%
Individual shareholders (Local)	10,139,969	1,000	10,139,969,000	23.33%
Arise B.V.	6,351,269	1,000	6,351,269,000	14.61%
Atlas Mara Mauritius Limited	26,975,175	1,000	26,975,175,000	62.06%
TOTAL	**43,466,413**	**1,000**	**43,466,413,000**	**100.00%**

Notes to the financial statement (continued)

27 Share capital and share premium (continued)

(a) Share capital (continued)

On 25th August 2021, KCB Group Plc completed the acquisition of 76.67% of the bank's issued share capital from Atlas Mara Mauritius Limited ("AMM") and Arise B.V of 62.06% and 14.61% irrespectively. The bank is now in the process of merging with a wholly owned KCBR Group subsidiary, KCB Bank Rwanda Plc to form a consolidated bank – BPR Bank Plc with conditional approval received on 31 January 2022.

KCB Group Plc has also made a global offer to all the remaining Shareholders of BPR to acquire additional shares in the bank.

b) Share Premium

The share premium arose in 2016 following the issue of shares to former shareholder Atlas Mara Mauritius Limited at a price higher than the par value of the said shares.

The increase is due to additional payment by Atlas Mara Mauritius Limited in accordance with the terms and conditions of the share purchase and merger agreement.

28 Reserves

(a) Revaluation reserve: The revaluation reserve represents the surplus on the revaluation of buildings and freehold land. Revaluation reserve will be credited to retained earnings upon disposal of the asset. This reserve is not distributable.

	2021 Frw'000	2020 Frw'000
As at 1 January	1,426,118	1,508,197
Reclassification to retained earnings	(324,810)	(82,079)
As at 31 December	**1,101,308**	**1,426,118**

(b) Retained earnings/(losses): This comprises of prior year earnings/(losses) plus current year profit.

29 Related party transactions

The parent and the controlling entity is KCB Group Plc. There are companies which are related to Banque Populaire du Rwanda Plc through common shareholdings or common Directorships.

The Bank enters into transactions, arrangements, and agreements involving Directors, senior management and their related concerns in the ordinary course of business. Related-party transactions during the year, outstanding balances at the year-end, and relating expense and income recognized during the year are as follows:

		2021	2020
(a)	**Deposits from related parties**	**Frw'000**	**Frw'000**
	Deposits from Directors	34,512	26,200
	Interest paid	-	-
(b)	**Loans and advances to related parties**		
	Loans and advances to senior management	635,173	620,904
	Interest received	50,583	53,531

Notes to the financial statement (continued)

29 Related party transactions (continued)

(b) Loans and advances to related parties (continued)

Loans and advances to senior management were issued at interest rates of between 7% and 10% and were all performing as at 31 December 2021 and 2020. Therefore, no impairment provisions have been recognised in respect of loans given to related parties (2020: nil).

(c) Amounts due to related parties	**2021**	**2020**
	Frw'000	**Frw'000**
KCB Bank Rwanda Plc	56,012	-
KCB Bank Kenya Limited	44,954	-
	100,996	**-**

(d) Key management compensation		
Salaries and wages	1,183,934	1,262,570
Contributions to Rwanda Social Security Board	62,748	66,916
Medical expenses	9,868	9,767
Other costs	277,104	231,095
	1,533,654	**1,570,348**

(e) Directors' remuneration		
Sitting allowances	356,476	320,824

30 (a) Analysis of cash and cash equivalents as shown in the cash flow statement

Cash and balances with Central Bank of Rwanda (Note 9)	25,709,101	38,239,356
Less: cash reserve requirement (see below)	(11,281,325)	(10,456,433)
	14,427,776	**27,782,923**
Amount due from banks (Note 10)	25,191,213	13,673,157
Treasury Bills maturing within 91 days (Note 11)	40,622,283	23,835,422
	80,241,272	**65,291,502**

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days' maturity from the date of acquisition including: cash and balances with Banks, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the National Bank of Rwanda. Banks are required to maintain a prescribed minimum cash balance with the National Bank of Rwanda that is not available to finance the bank's day-to-day activities. The amount is determined as 4% (2020: 4%) of the average outstanding customer deposits over a cash reserve cycle period of 15 days.

Notes to the financial statement (continued)

30 (b) Net cash flow from operating activities

	Notes	Year ended 31 December: 2021 Frw'000	2020 Frw'000
Cash flows from operating activities			
Profit before income tax		7,243,237	5,305,244
Adjusted for:			
Amortization of intangible assets	16	584,642	842,903
Depreciation on property and equipment	17	2,989,351	3,279,534
Amortization of right of use	18	808,867	723,456
Net impairment loss on non-current assets held for sale		120,000	368,000
Interest on borrowings		136,559	64,749
Finance cost on lease liabilities		122,169	131,210
Net impairment – right of use		(10,997)	-
Net impairment – property, plant and equipment	17	-	944,254
Net impairment - intangible assets	16	-	283,886
ECL - Cash held with BNR	9	-	16,159
ECL - Cash due from other banks	10	-	77,212
Net revaluation reserve		-	(82,079)
Gain on disposal of fixed assets		(70,962)	(48,578)
Unrealised currency translation losses		322,345	120,505
Cash flows generated by operating activities before changes in operating assets and liabilities		**12,245,211**	**12,026,455**
Changes in operating assets and liabilities:			
- loans and advances	12	(9,892,874)	(20,783,280)
- Government securities	11	12,425,066	(41,206,892)
- other assets	14	(1,042,488)	2,077,432
- customer deposits	19	9,900,431	21,067,358
- deposit from financial institutions	19	(8,174,235)	47,489,096
- other payables	24	(4,895,779)	278,259
- due to related parties		100,966	-
- Legal claims payable	21	475,830	(330,174)
- Cash reserves required by BNR	30	(824,892)	2,914,197
Income tax paid		(2,385,625)	(1,088,833)
Net cash generated by (used in) operating activities		**7,931,611**	**22,443,618**

31 Off balance sheet financial instruments, contingent liabilities and commitments

The Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

Contingent liabilities

	2021	202
	Frw'000	Frw'000
Guarantees and performance bonds	6,127,107	7,124,993
Expected credit loss	(189,935)	(171,144)
	5,937,172	**6,953,849**

Nature of commitments and contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

Capital commitments

As at 31 December 2021, the bank had capital commitments of Rwandan Francs equivalent of Frw 2.3 billion (2020: Frw 61.3 million). The directors are confident that future net revenues and funding will be sufficient to cover this commitment.

Legal proceedings

There were a number of legal proceedings outstanding against the Bank as at 31 December 2021. Provisions for these legal claims amounts to Frw 818.8 million (2020: Frw 343 million) at the balance sheet date (Note 21.) The provisions are in respect of certain legal claims brought against the bank by various stakeholders and are expected to be utilized in 2022. In the opinion of the directors, after taking appropriate legal advice, the outcome of these legal claims is not expected to give rise to any significant loss beyond the amounts provided as at 31 December 2021.

32 Financial risk management

The Bank's normal activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. These activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Risk management is carried out by the Credit and Risk committees of the Board under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as currency risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised in the credit risk management team in the Risk department, which reports regularly to the Board of Directors.

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

(i) Credit risk measurement

(a) Loans and advances (including commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Probability of default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty.

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all the customers are segmented into five rating classes as shown below:

The Bank's internal ratings scale

Description of the grade	Days in arrears	Regulatory rating	Bank's rating
Performing	0 – 29	1	1
Watch	30 – 89	2	2
Substandard	90 – 179	3	3
Doubtful	180 - 365	4	4
Loss	366 - 730	5	5

Exposure at default

Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Loss given default

Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

(ii) Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, and industry sector are approved annually by the Board of Directors. The Board of Directors also approve individual borrower limits above specified amounts. In response to the COVID-19 pandemic, the risk management committee has also been performing more frequent reviews of credit limits for customers in sectors that are severely impacted.

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

During the year ended 31 December 2021, the bank temporarily extended credit moratorium for specific customers with liquidity constraints arising as a direct result of the COVID-19 pandemic amounting to 17.2% (2020: 25.09%) of the loan book. All moratoriums which ranged from 3 – 6 months were granted after careful consideration of the impact of the COVID-19 pandemic on the customer cashflows and each customer that was granted an extension is closely monitored for credit deterioration.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over properties;
- Charges over business assets such as premises, plant and equipment; and
- Charges over financial instruments such as receivables.
- Corporate guarantees

Longer-term finance and lending to corporate entities are generally secured.

(b) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are cash collateralised and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(iii) Impairment and provisioning policies

The impairment allowance shown in the statement of financial position at year end is derived from each of the five internal rating grades. The bank determines the impairment provision on loans and advances to customers as estimated credit loss over a period of 12 months for Stage 1 and lifetime expected losses for stage 2 and 3.

Total exposure to credit risk	**2021**	**2020**
	Frw'000	**Frw'000**
Balances with National Bank of Rwanda	12,812,091	25,234,205
Amounts due from banks	25,191,213	13,673,157
Loans and advances to customers	206,780,105	193,329,594
Government securities	138,498,771	134,136,976
Other assets	1,368,725	1,443,496
Off-balance sheet items - Guarantees	6,127,107	7,124,993
	390,778,012	**374,942,421**

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

The above table represents the worst-case scenario of credit risk exposure to the Bank as at 31 December 2021 and 2020, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on carrying amounts as reported on the statement of financial position.

Loans and advances to customers are secured by collateral in the form of charges over land and buildings and/or plant and machinery or corporate guarantees.

(iv) Financial risk review

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For Financial guarantee contracts, the amounts in the table represent the amounts guaranteed.

Loans and advances to customers at amortised cost

	2021				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	Frw'000	**Frw'000**	**Frw'000**	**Frw'000**	**Frw'000**
Class 1: Normal	167,750,103	-	-	-	167,750,103
Class 2: Watch	-	25,250,255	-	-	25,250,255
Class 3: Substandard	-	-	8,481,240	-	8,481,240
Class 4: Doubtful	-	-	1,667,627	-	1,667,627
Class 5: Loss			3,630,880		3,630,880
Total	167,750,103	25,250,255	13,779,747	-	206,780,105
Expected credit loss	(3,188,934)	(342,820)	(6,494,905)	-	(10,026,659)
Fair value adjustment for staff loans	-	-	-	-	(1,068,841)
Fair value adjustment on ERF	-	-	-	-	(1,132,964)
Carrying amount	**164,561,169**	**24,907,435**	**7,284,842**	**-**	**194,551,641**

	2020				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	Frw'000	**Frw'000**	**Frw'000**	**Frw'000**	**Frw'000**
Class 1: Normal	166,499,551	-	-	-	166,499,551
Class 2: Watch	-	18,623,613	-	-	18,623,613
Class 3: Substandard	-	-	2,098,998	-	2,098,998
Class 4: Doubtful	-	-	1,751,750	-	1,751,750
Class 5: Loss	-	-	4,355,682	-	4,355,682
Total	166,499,551	18,623,613	8,206,430	-	193,329,594
Expected credit loss	(2,876,378)	(529,745)	(4,943,509)	-	(8,349,632)
Fair value adjustment for staff loans	-	-	-	-	(906,334)
Fair value adjustment on ERF	-	-	-	-	(178,214)
Carrying amount	**163,623,173**	**18,093,868**	**3,262,921**	**-**	**183,895,414**

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3. Loans and advances to customers at amortised cost - gross carrying amount.

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	Frw'000	**Frw'000**	**Frw'000**	**Frw'000**
Current	158,366,051	6,143,111	255,781	164,764,943
Overdue < 30 days	9,384,052	8,045,582	23,672	17,453,306
Overdue > 30 days	-	11,061,562	13,500,294	24,561,856
Total	**167,750,103**	**25,250,255**	**13,779,747**	**206,780,105**

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	Frw'000	**Frw'000**	**Frw'000**	**Frw'000**
Current	130,719,692	11,517,503	564,004	142,801,199
Overdue < 30 days	35,779,859	1,307,742	106,146	37,193,747
Overdue > 30 days	-	5,798,368	7,536,280	13,334,648
Total	**166,499,551**	**18,623,613**	**8,206,430**	**193,329,594**

Financial guarantee contracts	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	Frw'000	**Frw'000**	**Frw'000**	**Frw'000**
Stage 1-6: Low/fair risk	6,127,107	-	-	6,127,107
Expected credit losses	(189,935)	-	-	(189,935)
Carrying amount	**5,937,172**	**-**	**-**	**5,937,172**

Financial guarantee contracts	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	Frw'000	**Frw'000**	**Frw'000**	**Frw'000**
Stage 1-6: Low/fair risk	7,124,993	-	-	7,124,993
Expected credit losses	(171,144)	-	-	(171,144)
Carrying amount	**6,953,849**	**-**	**-**	**6,953,849**

Notes to the financial statement (continued)
32 Financial risk management (continued)
(a) Credit risk (continued)

Government bonds and treasury bills	**2021**	**2020**
	Frw'000	**Frw'000**
Rated BBB+ and below	138,498,771	134,136,976
Expected credit losses	(522,214)	(522,214)
	137,976,557	**133,614,762**

Placements with National bank and other banks

	2021	**2020**
	Frw'000	**Frw'000**
Balances with the National Bank of Rwanda	12,812,091	16,519,293
Amounts due from banks	25,191,213	13,673,157
Expected credit losses	(93,373)	(93,373)
	37,909,931	**38,813,989**

All financial guarantees contracts, government bonds and treasury bills and placements with National Bank of Rwanda and other banks are included in stage 1 category in 2021 and 2020

Collateral held and other credit enhancements
The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

Percentage of exposure that is subject to collateral requirements

	2021	**2020**	**Principle type of collateral held**
Loans and advances to retail customers			
Mortgage lending	43.67%	40%	Residential properties
Personal loans	8%	6%	Vehicle and Equipment's
Other	32.67%	31%	Land and Commercial properties
Loans and advances to Corporate customers			
Mortgage lending	21.07%	20%	Residential properties
Other	58.3%	57%	commercial properties, Corporate and Government guarantees

Residential mortgage lending
The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For restructured loans the value of collateral is based on the most recent appraisals.

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

	2021	2020
	Frw'000'	Frw'000'
LTV ratio		
Less than 50%	52,023,112	21,810,769
51–70%	14,889,407	8,213,063
71–90%	6,999,774	6,172,768
91–100%	1,795,453	2,928,282
More than 100%	6,015,870	8,480,396
Total	**81,723,616**	**47,605,278**

LTV ratio for impaired loans	2021	2020
	Frw'000'	Frw'000'
Less than 50%	1,370,952	546,790
51–70%	710,666	158,007
More than 70%	511,179	852,814
Total	**2,592,797**	**1,557,611**

Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it however, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the bank's focus on corporate customers' creditworthiness, the bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is being restructured or the collateral is being auctioned. For credit-impaired loans, the bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.
For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

	2021	2020
	Frw'000'	Frw'000'
LTV ratio		
Less than 50%	8,363,763	2,428,010
51–70%	2,018,710	742,040
71–90%	270,612	563,071
91–100%	-	-
More than 100%	294,461	11,550,001
Total	**10,947,546**	**15,283,122**

The above facilities are not impaired.

Notes to the financial statement (continued)
32 Financial risk management (continued)
(a) Credit risk (continued)

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the bank's historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The bank uses two criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Bank has not followed an overall blanket approach to the ECL impact of COVID-19 (where COVID-19 is seen as a significant increase in credit risk (SICR) trigger that will result in the entire portfolio of advances moving into their respective next staging bucket). With the Bank undertaking loan restructures on 17.2% (2020: 25%) of the loan book (see the section "Restructuring" below), the Bank incorporated qualitative factors to assess significant increase in credit risk on these loans as below:

All loans whose business activity, in our assessment, was significantly lower than the pre-COVID period as at 31 December 2021, was considered to have a significant increase in credit risk and downgraded to Stage 2.

Loans in high-risk industry segments (see the section "Restructuring" below) were assessed for significant increase in credit risk.

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities may include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

Generally, restructuring is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk. Following restructuring, a customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

However, on the onset of the COVID-19 pandemic, the impact of the containment measures on the economy made it imperative for the Bank to support its customers. The Bank's view is that the economic impacts of the pandemic will be felt for a period of three to five years before there is full recovery. The Bank therefore accommodated its customers to cushion them from the economic downturn by rescheduling their loan facilities for a period of 6 months to 36 months. The length of the period of accommodation depended on the impact of the pandemic on the industry in which the customer operates. The Bank segregated the loan book into low risk, medium risk and high risk based on the industry. For example, Agriculture was rated as low risk, while Tourism and Hospitality and Real Estate as High Risk. The Bank then accommodated for different periods depending on the level of risk.

The assessment of SICR incorporates forward-looking information (refer to note 32. (a). (iv)) for further information) and is performed on a monthly basis at a portfolio level for all financial instruments held by the Bank. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Credit risk grades

The bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment.

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate Exposures	Retail Exposures	All exposures
Information obtained during periodic review of customer files -e.g., audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes	Internally collected data on customer behavior.	Payment record - this includes overdue status as well as a range of variables about payment ratios
Data from credit reference agencies and press articles	Affordability metrics	Utilisation of the granted limit
Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	External data from credit reference agencies, including industry-standard credit scores	Requests for and granting of forbearance
		Existing and forecast changes in business, financial and economic conditions

Notes to the financial statement (continued)
32 Financial risk management (continued)
(a) Credit risk (continued)

Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The bank collects performance and default information about its credit risk exposures analysed by segment (wholesale and retail) and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly
The bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the segment. What is considered significant differs for different types of lending, in particular between wholesale and retail segments.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the bank's quantitative modelling:
When days in arrears increase between 29 and 179 days, the bank's IFRS stages are aligned to the days in arrears as follows;

Days in arrears	BNR Credit Classification	IFRS Stages
0 - 29	1	1
30 - 89	2	2
90 - 179	3	3
180 - 365	4	3
366 - 730	5	3

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the bank considers that a significant increase in credit risk occurs no later than when an asset is more than 29 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument return to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria align with the point in time when an asset becomes 30 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

Definition of default

The bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the bank to actions such as realising security (if any is held);
- the borrower is more than 89 days past due on any material credit obligation to the bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

On a quarterly basis, the bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the bank's senior management.

The bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the bank's ability to collect interest and principal and the bank's previous experience of similar forbearance action. As part of this process, the bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the bank considers a longer period. The maximum contractual period extends to the date at which the bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for certain retail exposures, the bank measures ECL over a period longer than the maximum contractual period if the bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are Banked on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- Loan to value ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. This is done by taking into account forecasted economic conditions by applying both expert judgement and also deploying models that link the performance of the macro economy to the probability of default (PD) exposure at default (EAD), and loss given default (LGD). Forecasts are developed using a probability weighted scenario-based approach to ensure that the asymmetry of the various economic outcomes is captured in the estimation of ECL.

The bank has concluded that three (3) scenarios appropriately capture the non-linearities. The three scenarios that were applied as at 31 December 2021 are:

- Base line scenario;
- Upside scenario;
- Downside scenario

A base case is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with the available macro-economic information. External information considered includes economic data and forecasts published by governmental.

The scenario probability weightings applied in measuring ECL are as follows.

	31 December 2021			31 December 2020		
	Upside	**Base**	**Downside**	**Upside**	**Base**	**Downside**
Scenario probability weighting	5.00%	80.00%	15.00%	5.00%	88.33%	6.67%

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses

The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the scenarios multiplied by the associated scenario weighting above. The Bank measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

(i) Collateral haircuts, and
(ii) Period to recovery of collateral

Set out below are the changes to the ECL as at 31 December 2021 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions.

Time to realization: The directors have assumed a time to realization of 3 years both for commercial properties and 2 years for residential properties. If time to realisation increased to 4 years, overall ECL would increase in the range of Frw 850 million and Frw 1.2 billion.

Collateral haircuts: The directors have assumed collateral haircuts of 50% for commercial and 70% residential properties. If haircuts were further adjusted by 10% the overall ECL would increase/reduce in the range of Frw 170 million and Frw 230 million.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearity within the loan

Notes to the financial statement (continued)
32 Financial risk management (continued)
(a) Credit risk (continued)

portfolio to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

A comprehensive review is performed at annually on the design of the scenarios by experts that advises the Bank senior management.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This will be reviewed and monitored for appropriateness on an annual basis.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, borrower retention and other factors not related to a current or potential credit deterioration of the borrower. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to borrowers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the Bank Credit policy, loan restructuring is granted on a selective basis if the borrower is currently in default or if there is a high risk of default, there is evidence that the borrower made all reasonable efforts to pay under the original contractual terms and the borrower is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments, and amending the terms of loan covenants. Both retail and corporate loans are subject to the credit policy on restructuring. The Bank Credit Committee regularly reviews reports on restructured loans activities.

For financial assets modified as part of the Bank's restructuring credit policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar restructuring action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of restructuring may constitute evidence that an exposure is credit impaired. A borrower needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

The loss allowance in these tables includes ECL on loan commitments for certain retail products such as overdrafts because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

Notes to the financial statement (continued)
32 Financial risk management (continued)
(a) Credit risk (continued)

Loans and advances to customers at amortized cost

	2021					2020				
	Stage 1	Stage 2	Stage 3	Purchased credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased credit impaired	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Balance as at 1 January	**2,876,378**	**529,745**	**4,943,509**	**-**	**8,349,632**	**2,194,101**	**260,419**	**4,165,372**	**-**	**6,619,892**
- transfers from stage 1 to stage 2	(292,061)	292,061	-	-	**-**	(98,669)	98,669	-	-	**-**
- transfers from stage 2 to stage 1	153,054	(153,054)	-	-	**-**	66,516	(66,516)	-	-	**-**
- transfers to stage 3	(50,586)	(148,743)	199,329	-	**-**	(42,296)	58,245	(15,949)	-	**-**
- transfers from stage 3	217,470	39,891	(257,361)	-	**-**	86,049	9,858	(95,907)	-	**-**
Net re-measurement of loss allowance	(1,731,179)	(427,066)	5,353,476	-	**3,195,231**	(444,534)	236,732	800,399	-	**592,597**
New financial assets originated or purchased	2,015,858	209,994	25,826	-	**2,251,678**	1,115,211	(67,610)	2,084,176	-	**3,131,777**
Financial assets that have been derecognised	-	(8)	(3,769,874)	-	**(3,769,882)**	-	(52)	(1,994,582)	-	**(1,994,634)**
Balance as at 31 December	**3,188,934**	**342,820**	**6,494,905**	**-**	**10,026,659**	**2,876,378**	**529,745**	**4,943,509**	**-**	**8,349,632**

Notes to the financial statement (continued)
32 Financial risk management (continued)
(a) Credit risk (continued)

Loans and advances at amortized cost- Retail customers

	2021					2020				
	Stage 1	Stage 2	Stage 3	Purchased credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased credit impaired	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Balance as at 1 January	**2,021,099**	**326,995**	**2,822,557**	**-**	**5,170,651**	1,773,089	241,795	3,486,047	-	**5,500,931**
- transfers from stage 1 to stage 2	(104,671)	104,671	-	-	**-**	(85,932)	85,932	-	-	**-**
- transfers from stage 2 to stage 1	144,414	(144,414)	-	-	**-**	66,494	(66,494)	-	-	**-**
- transfers to stage 3	(50,112)	(27,404)	77,516	-	**-**	(32,603)	58,245	(25,642)		**-**
- transfers from stage 3	217,470	39,891	(257,361)	-	**-**	84,168	9,858	(94,026)	-	**-**
Net re-measurement of loss allowance	(1,376,503)	(254,688)	1,405,159	-	**(226,032)**	(585,042)	69,821	42,484	-	**(472,737)**
New financial assets originated or purchased	1,672,109	51,313	25,826	-	**1,749,248**	800,925	(72,110)	1,408,276	-	**2,137,091**
Financial assets that have been derecognised	-	(8)	(2,636,153)	-	**(2,636,161)**	-	(52)	(1,994,582)	-	**(1,994,634)**
Balance as at 31 December	**2,523,806**	**96,356**	**1,437,544**	**-**	**4,057,706**	**2,021,099**	**326,995**	**2,822,557**	**-**	**5,170,651**

Notes to the financial statement (continued)
32 Financial risk management (continued)
(a) Credit risk (continued)

Loans and advances at amortized cost- Corporate customers

	2021					2020				
	Stage 1	Stage 2	Stage 3	Purchased credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased credit impaired	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Balance as at 1 January	**855,279**	**202,750**	**2,120,952**	**-**	**3,178,981**	421,012	18,624	679,325	-	**1,118,961**
- transfers from stage 1 to stage 2	(187,390)	187,390	-	-	-	(12,737)	12,737		-	-
- transfers from stage 2 to stage 1	8,640	(8,640)	-	-	-	22	(22)		-	-
- transfers to stage 3	(474)	(121,339)	121,813	-	-	(9,693)	-	9,693	-	-
- transfers from stage 3	-	-	-	-	-	1,881	-	(1,881)	-	-
Net re-measurement of loss allowance	(354,676)	(172,378)	3,948,317	-	**3,421,263**	140,508	166,911	757,915	-	**1,065,334**
New financial assets originated or purchased	343,749	158,681	-	-	**502,430**	314,286	4,500	675,900	-	**994,686**
Financial assets that have been derecognised	-	-	(1,133,721)	-	**(1,133,721)**	-	-	-	-	-
Balance as at 31 December	**665,128**	**246,464**	**5,057,361**	**-**	**5,968,953**	**855,279**	**202,750**	**2,120,952**	**-**	**3,178,981**

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- The amounts in the table below shows the 'impairment losses on financial instruments ' line item in the statement of profit or loss and other comprehensive income.

Grading 2021					
	Loans and advances	**Government securities**	**Guarantees**	**Placements and bank balances**	**Total**
Net remeasurement of loss allowance	3,195,232	-	-	-	3,195,232
New financial assets originated or purchased	2,251,677	-	18,791	-	2,270,468
Total	**5,446,909**	**-**	**18,791**	**-**	**5,465,700**
Recoveries of amounts previously derecognized	(935,129)	-	-	-	(935,129)
Total	**4,511,780**	**-**	**18,791**	**-**	**4,530,571**
Grading 2020					
	Loans and advances	**Government securities**	**Guarantees**	**Placements and bank balances**	**Total**
	Frw'000	**Frw'000**			**Frw'000**
Net remeasurement of loss allowance	85,975	-	-	-	85,975
New financial assets originated or purchased	3,638,399	106,627	165,249	93,373	4,003,648
Total	**3,724,374**	**106,627**	**165,249**	**93,373**	**4,089,623**
Recoveries of amounts previously derecognized	(1,000,167)	-	-	-	(1,000,167)
Total	**2,724,207**	**106,627**	**165,249**	**93,373**	**3,457,456**

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

32 Financial risk management (continued)

(a) Credit risk (continued)

v) Concentrations of risk

Collateral coverage	
Type of facility	**Collateral cover %**
Mortgages	100%
Equipment loans	100%
Overdrafts	100%
Consumer loans	100%
Others	100%

Economic sector risk concentrations within the gross customer loans and advances portfolios were as follows:
All amounts are shown in Frw '000

Frw '000	Construction	Wholesale & retail trade	Manufacturing	Agriculture	Other industries	Total
Overdrafts	6,882,354	4,041,387	3,325,029	689,326	1,202,603	16,140,699
Term loans	3,704,477	25,603,657	12,225,547	10,306,007	61,074,358	112,914,046
Mortgages	-	3,093,558	161,073	1,002,982	73,467,747	77,725,360
As at 31 December 2021	**10,586,831**	**32,738,602**	**15,711,649**	**11,998,315**	**135,744,708**	**206,780,105**
Overdrafts	8,534,104	6,506,503	8,803,891	869,926	2,033,838	26,748,262
Term loans	2,035,755	26,335,666	5,485,196	7,840,525	59,567,880	101,265,022
Mortgages	-	3,237,794	231,085	1,025,308	60,822,123	65,316,310
As at 31 December 2020	**10,569,859**	**36,079,963**	**14,520,172**	**9,735,759**	**122,423,841**	**193,329,594**

b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The National Bank of Rwanda requires that the Bank maintains a cash reserve ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis. Sources of liquidity are regularly reviewed by a separate team in the Treasury department to maintain a wide diversification by provider, product and term.

The tables below present the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the statement of financial position date and from financial assets by expected maturity dates.

Notes to the financial statement (continued)
32 Financial risk management (continued)
(b) Liquidity risk (continued)

As at 31 December 2021		Less than 1 month Frw '000	1-3 months Frw '000	3-12 months Frw '000	1-5 Years Frw'000	Over 5 Years Frw '000	Total Frw '000
Financial liabilities							
Deposit from customers		191,777,678	4,297,096	8,985,972	11,638,636	37,080,487	253,779,869
Deposit from banks		79,244,541	-	8,087,862	820,569	6,486,631	94,639,603
Borrowings		365	362,922	899,126	1,794,315	4,156,143	7,212,871
Credit funds		1,187,337	-	-	-	-	1,187,337
Other payables		6,118,516	-	-	-	-	6,118,516
Off balance sheet exposures		111,372	1,911,375	3,822,458	281,902	-	6,127,107
Lease liabilities		78,297	237,006	657,856	957,544	-	1,930,703
Total financial liabilities	**(a)**	**278,518,106**	**6,808,399**	**22,453,274**	**15,492,966**	**47,723,261**	**370,996,006**
Financial assets							
Cash and balances with National Bank of Rwanda		25,709,101	-	-	-	-	25,709,101
Amounts due from banks		25,191,213	-	-	-	-	25,191,213
Loans and advances to customers		15,616,581	122,734,215	14,486,720	12,154,424	131,802,164	296,794,104
Government securities		22,249,754	21,376,683	57,925,965	19,835,999	64,403,515	185,791,916
Other assets		230,758	-	-		-	230,758
Total financial assets	**(b)**	**84,976,401**	**23,914,769**	**79,718,734**	**117,157,230**	**90,642,815**	**396,409,949**
Net liquidity gap	**(a-b)**	**193,541,705**	**(17,106,370)**	**(57,265,460)**	**(101,664,264)**	**(42,919,554)**	**(25,413,943)**

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

32 Financial risk management (continued)

(b) Liquidity risk (continued)

As at 31 December 2020		Less than 1 month	1-3 months	3-12 months	1-5 Years	Over 5 Years	Total
		Frw '000	Frw '000	Frw '000	Frw'000	Frw '000	Frw '000
Financial liabilities							
Deposit from customers		180,770,535	20,648,455	24,120,924	11,147,652	1,143,138	237,830,704
Deposit from banks		75,951,279	16,888,283	5,113,774	5,147,518	-	103,100,854
Borrowings		-	-	-	1,650,444	-	1,650,444
Credit funds		368,596	-	-	-	-	368,596
Other payables		10,924,915	-	-	-	-	10,924,915
Off balance sheet exposures		27,604	37,672	3,366,912	3,692,804	-	7,124,993
Lease liabilities		36,375	109,126	436,503	1,255,132	258,000	2,095,135
Total financial liabilities	**(a)**	**268,079,304**	**37,683,536**	**33,038,113**	**22,893,550**	**1,401,138**	**363,095,641**
Financial assets							
Cash and balances with National Bank of Rwanda		38,239,356	-	-	-	-	38,239,356
Amounts due from banks		13,673,157	-	-	-	-	13,673,157
Loans and advances to customers		17,658,845	7,474,243	17,569,045	82,381,517	59,896,312	184,979,962
Government securities		13,907,632	10,666,401	75,194,084	12,189,838	21,656,807	133,614,762
Other assets		146,464	-	-	65,360	-	211,824
Total financial assets	**(b)**	**83,625,454**	**18,140,644**	**92,763,129**	**94,636,715**	**81,553,119**	**370,719,061**
Net liquidity gap	**(a-b)**	**184,453,850**	**19,542,892**	**(59,725,016)**	**(71,743,165)**	**(80,151,981)**	**(16,834,328)**

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk. Overall responsibility for managing market risk rests with the Management Assets and Liabilities Committee (MALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by MALCO) and for the day to day implementation of those policies.

(i) Currency risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2021 and 2020. Included in the table are the Bank's financial instruments, categorised by currency:

Notes to the financial statement (continued)

32 Financial risk management (continued)

(b) Liquidity risk (continued)

The Bank had the following significant foreign currency positions (all amounts expressed in thousands of Rwandan Francs):

As at 31 December 2021	USD Frw '000	Euro Frw '000	GBP Frw '000	Other Frw '000	Total Frw '000
Financial assets					
Cash and balances with National Bank of Rwanda	3,470,621	496,278	84,148	59,977	4,111,024
Amounts due from banks	12,675,997	8,775,220	2,445,685	1,294,290	25,191,192
Other assets	59,248	-	-	-	59,248
Loans and advances to customers	23,231,706	-	-	-	23,231,706
Total financial assets	**39,437,572**	**9,271,498**	**2,529,833**	**1,354,267**	**52,593,170**
Financial liabilities					
Deposit from customers	23,156,898	1,075,120	35,785	5	24,267,808
Deposits from banks	21,578,034	113,498	-	-	21,691,532
Other liabilities	625,788	4,339	-	-	630,127
Due to related parties	-	-	-	44,954	44,954
Off balance sheet exposures	809,474	-	-	-	809,474
Lease Liabilities	205,334	-	-	-	205,334
Total financial liabilities	**46,375,528**	**1,192,957**	**35,785**	**44,959**	**47,649,229**
Net position	**(6,937,956)**	**8,078,541**	**2,494,048**	**1,309,308**	**4,943,941**

Financial assets					
Cash and balances with National Bank of Rwanda	4,900,144	335,182	13,613	59,660	5,308,599
Amounts due from banks	12,170,014	1,059,185	293,925	150,192	13,673,316
Loans and advances to customers	14,419,131	-	-	-	14,419,131
Total financial assets	**31,489,289**	**1,394,367**	**307,538**	**209,852**	**33,401,046**
Financial liabilities					
Deposit from customers	16,954,710	1,007,617	59,500	22,576	18,044,403
Deposits from banks	20,338,798	137,848	-	-	20,476,646
Other liabilities	93,880	-	-	-	93,880
Lease Liabilities	21,780	-	-	-	21,780
Total financial liabilities	**37,409,168**	**1,145,465**	**59,500**	**22,576**	**38,636,709**
Net position	**(4,008,122)**	**248,902**	**248,038**	**187,276**	**(5,213,663)**

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

32 Financial risk management (continued)

The table below shows the Foreign exchange rate risk sensitivity of the bank's reported profit to a change in exchange rates at the year-end date, assuming all other variables remain unchanged. The sensitivity represents the directors' assessment of a reasonably possible change, based on historic volatility. Foreign exchange rate risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. The symmetric basis assumes that an increase or decrease in foreign exchange movement would result in the same amount.

	2021 Frw '000	2020 Frw '000
10 basis points	(4,944)	(5,214)
50 basis points	(24,720)	(26,069)
100 basis points	(49,439)	(52,139)

(c) Market risk

ii) Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The tables below summarise the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Rwandan Francs.

Notes to the financial statement (continued)

32 Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

As at 31 December 2021	Less than 1 month Frw '000	1-3 months Frw '000	3-12 months Frw '000	1-5 Years Frw '000	Over 5 Years Frw '000	Non-interest bearing Frw '000	Total Frw '000
Financial liabilities							
Deposits from customers							
Current accounts	36,734,797	-	-	-	-	128,309,414	165,044,211
Savings accounts	24,537,295	-	-	-	-	-	24,537,295
Term deposits	2,187,129	8,853,010	35,393,448	9,385,426	2,095,014	-	57,914,027
Deposits from banks	69,820,512	6,173,742	7,981,241	764,883	-	9,367,285	94,107,663
Borrowings	365	361,419	898,841	1,654,597	3,165,567	-	6,080,789
Credit funds	-	-	-	-	-	1,187,337	1,187,337
Off balance sheet exposures	-	-	-	-	-	6,127,107	6,127,107
Due to related parties	-	-	-	-	-	100,966	100,966
Other liabilities	-	-	-	-	-	6,118,516	6,118,516
Total financial liabilities	**133,280,098**	**15,388,171**	**44,273,530**	**11,804,906**	**5,260,581**	**151,210,625**	**361,217,911**
Financial assets							
Cash and balances with National Bank of Rwanda	-	-	-	-	-	25,709,101	25,709,101
Amounts due from banks	-	-	-	-	-	25,191,213	25,191,213
Loans and advances to customers	11,670,577	5,216,552	22,190,859	102,667,037	65,035,080	-	206,780,105
Government securities	22,174,751	18,698,217	57,527,875	14,490,193	25,607,735	-	138,498,771
Other assets	-	-	-	-	-	230,758	230,758
Total financial assets	**33,845,328**	**23,914,769**	**79,718,734**	**117,157,230**	**90,642,815**	**51,131,072**	**396,409,948**
Interest sensitivity gap	**99,434,770**	**(8,526,598)**	**(35,445,204)**	**(105,352,324)**	**(85,382,234)**	**100,079,553**	**(35,192,037)**

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

32 Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

As at 31 December 2020	Less than 1 month Frw '000	1-3 months Frw '000	3-12 months Frw '000	1-5 Years Frw '000	Over 5 Years Frw '000	Non-interest bearing Frw '000	Total Frw '000
Financial liabilities							
Deposits from customers							
Current accounts	27,176,677	-	-	-	-	133,557,666	160,734,343
Savings accounts	16,164,922	-	-	-	-	-	16,164,922
Term deposits	3,627,560	20,565,166	23,736,394	10,713,745	1,015,219	-	59,658,084
Deposits from banks	66,108,255	16,638,702	4,824,315	4,476,104	-	9,465,156	101,512,532
Borrowings	-	-	-	1,435,169	-	-	1,435,169
Credit funds	-	-	-	-	-	368,596	368,596
Other liabilities	-	-	-	-	-	10,924,915	10,924,915
Total financial liabilities	**113,077,414**	**37,203,868**	**28,560,709**	**16,625,018**	**1,015,219**	**154,316,333**	**350,798,561**
Financial assets							
Cash and balances with National Bank of Rwanda	-	-	-	-	-	38,239,356	38,239,356
Amounts due from banks	-	-	-	-	-	13,673,157	13,673,157
Loans and advances to customers	17,658,845	7,474,243	17,569,045	82,381,517	59,896,312	-	184,979,962
Government securities	13,907,632	10,666,401	75,194,084	12,189,838	21,656,807	-	133,614,762
Other assets	-	-	-	-	-	211,824	211,824
Total financial assets	**31,566,477**	**18,140,644**	**92,763,129**	**94,571,355**	**81,553,119**	**52,124,337**	**370,719,061**
Interest sensitivity gap	**81,510,937**	**19,063,224**	**(64,202,420)**	**(77,946,337)**	**(80,537,900)**	**102,191,996**	**(19,920,500)**

The above analysis does not consider the impact of future interest on the contractual amounts in assessing the interest rate risk

The management of interest rate risk against the interest rate gap limits is supplemented by monitoring the sensitivity of the bank's financial assets and liabilities to various standard and non-standard interest rate scenarios.

Standard scenarios that are considered on a monthly basis include a 100, 50 and 10 basis point (bp) parallel fall or rise in yields.

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

Notes to the financial statement (continued)
32 Financial risk management (continued)
(d) Capital management (continued)

	2021 Frw '000	2020 Frw '000
10 basis points	39,259	25,852
50 basis points	196,296	129,260
100 basis points	392,592	258,521

(d) Capital management

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

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the National Bank of Rwanda. The National Bank of Rwanda sets and monitors capital requirements for the Banking industry as a whole.

In implementing current capital requirements, the National Bank of Rwanda requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

- Core Capital (Tier 1) capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Supplementary Capital (Tier 2) includes the revaluation reserve at 25% of the total amount.

Various limits are applied to elements of the capital base.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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Notes to the financial statement (continued)

32 Financial risk management (continued)

(e) Fair values (continued)

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

	2021 Frw'000	2020 Frw'000
Core Capital (Tier 1):		
Ordinary share capital	43,466,413	43,466,413
Share premium	3,901,857	1,357,832
Retained earnings/(losses)	7,033,818	1,761,266
Regulatory adjustment on IFRS 9 adoption	-	-
Deductions		
- Deferred income tax asset	-	-
- Intangible assets	(508,138)	(821,434)
Total Tier 1 Capital	**53,893,950**	**45,764,077**
Supplementary Capital (Tier 2):		
Revaluation reserve	275,327	356,530
Total Tier 2 Capital	**275,327**	**356,530**
Total capital	**54,169,277**	**46,120,607**
Risk weighted assets	**225,128,558**	**203,061,174**
Capital ratios:		
Total capital expressed as a percentage of total risk-weighted assets	24.06%	22.71%
Core capital expressed as a percentage of total risk-weighted assets	23.94%	22.54%

The minimum capital funds unimpaired by losses of a licensed Bank shall, at any one time, not be less than Rwandan Francs five billion. Unless a higher minimum ratio has been set by the Central Bank for an individual Bank, every Bank, shall, at all time, maintain a total capital ratio of 15% of its total weighted assets of which at least 12.5% is core capital or as prescribed by the Central Bank in the case of Systemically Important bank.

(e) Fair values

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

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

Notes to the financial statement (continued)
32 Financial risk management (continued)
(e) Fair values (continued)

Valuation models

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

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments.

in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, and comparison with similar instruments for which market observable prices exist.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received by selling the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date

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

Financial instruments not measured at fair value, where the carrying value is estimated to approximate the fair value of these instruments, were as follows:

i. Cash and short-term funds

Placements with other banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. All placements are fixed rate placements.
ii. Loans and advances

The fair value of loans and advances is deemed to closely approximate the carrying value. This is due to most of the instruments included in this classification being market rate instruments. The impact of fixed rate exposures has been assessed and is deemed to be immaterial. The value of variable rate instruments is determined with reference to the estimated future cash flows discounted back at the market rate prevailing for such instruments.

iii. Government securities and other bonds
Government securities and other bonds include only interest-bearing assets at amortized cost.

iv. Deposits; borrowed funds and intercompany payables

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

32 Financial risk management (continued)

(e) Fair values (continued)

The estimated fair value of deposits borrowed funds and creditors and accruals with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using contractual interest rates and the remaining maturity. The majority of deposits and other borrowings are at fixed rates, or when at fixed rates, fixed for less than three months.

Valuation hierarchy

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets	Actively traded government and other agency securities	Corporate and other government bonds and loans	Highly structured OTC derivatives with unobservable parameters.
	Listed derivative instruments Listed equities	Over-the-counter (OTC) derivatives	Corporate bonds in illiquid markets.
Types of financial liabilities	Listed derivative instruments	Over-the-counter (OTC) derivatives	Highly structured OTC derivatives with unobservable parameters

Comparison of carrying amounts and fair values for assets and liabilities not held at fair value:

The following tables show the breakdown of carrying amounts and fair values of financial assets and financial liabilities by class and category of financial instrument measured at amortised cost. All these financial instruments are in level 2 and are carried at amortized cost.

Financial assets measured at amortised cost

	31 December 2021		31 December 2020	
	Carrying amount Frw '000	Fair value Frw '000	Carrying amount Frw '000	Fair value Frw '000
Cash and short-term funds	25,709,101	25,709,101	38,239,356	38,239,356
Amounts due from other banks	25,191,213	25,191,213	13,673,157	13,673,157
Government securities	138,498,771	108,413,692	133,614,762	112,257,026
Loans and advances	196,753,446	196,753,446	184,979,962	184,979,962

Notes to the financial statement (continued)

Financial liabilities measured at amortised cost

	31 December 2021			31 December 2020	
	Carrying amount Frw '000	Fair value Frw '000		Carrying amount Frw '000	Fair value Frw '000
Deposit from customers	247,495,533	247,495,533		283,775,412	283,775,412
Deposit from banks	94,107,663	94,107,663		54,239,334	54,239,334
Borrowings	5,717,543	5,717,543		1,435,169	1,435,169
Credit funds	1,187,337	1,187,337		368,596	368,596

33 Reporting entity

Banque Populaire du Rwanda Plc (the 'Bank') is domiciled in the Republic of Rwanda. The Bank's registered office is at:

Banque Populaire du Rwanda Plc
P.O Box 1348
KN 67 ST 2
Kigali
Rwanda

The bank core business is commercial banking.

34 Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Law No. 007/2021 of 05/02/2021 Governing companies.

35 Functional and presentation currency

These financial statements are presented in Rwanda Franc (Frw), which is the company's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

36 Use of judgements and estimates

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

36 Use of judgements and estimates (continued)

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment in the year is set out in the following notes;

Note 17 - Property and Equipment

Land and buildings are recognised at fair value based on periodic, but at least every 3-5 years, valuations by external independent valuers, less subsequent depreciation for buildings. A revaluation surplus is credited to revaluation reserves

in shareholders' equity. All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as under note 17.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Bank policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Notes to the financial statement (continued)
37 Summary of significant accounting policies

Note 12 – Expected credit loss

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 32. (a). (iv), which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and the associated ECL; and
- Establishing Banks of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by BPR Plc in the above areas is set out in note 32. (a). (iv).

Note 26 – Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of branch network, management considered the following:
With the transformation project having commenced, the business model for the bank will be impacted and projecting beyond a five-year planning period has uncertainties as to the Bank exercising its extension options.

As at 31 December 2021, potential future cash outflows of Frw 1.8 billion (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease term by a further two years to reflect the effect of exercising extension options would be an increase in recognised lease liabilities and right-of-use assets of Frw 353 million and 406 million respectively.

37 Summary of significant accounting policies

Fees and commission income

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

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' or 'interest expense' in the statement of comprehensive income using the effective interest method.

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FOR THE YEAR ENDED 31 DECEMBER 2021

Notes to the financial statement (continued)

37 Summary of significant accounting policies

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets and liabilities

Measurement methods

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired (`POCI') financial assets — assets that are credit-impaired at initial recognition — BPR Plc calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When BPR Plc revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when BPR Plc becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which BPR Plc commits to purchase or sell the asset.

At initial recognition, BPR Plc measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and

Notes to the financial statement (continued)
37 Summary of significant accounting policies

directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

***(ii)* Classification and subsequent measurement**

BPR Plc classifies its financial assets in the following measurement categories:
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below: Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:
(i) BPR Plc's business model for managing the asset; and
(ii) The cash flow characteristics of the asset.

Based on these factors, BPR Plc classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model: the business model reflects how BPR Plc manages the assets in order to generate cash flows. That is, whether BPR Plc's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by BPR Plc in determining the business model for a Bank of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, BPR Plc assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the `SPPI test'). In making this assessment, BPR Plc considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

BPR Plc reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

BPR Plc subsequently measures all equity investments at fair value through profit or loss, except where BPR Plc's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. BPR Plc's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when BPR Plc's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the Net trading income' line in the statement of profit or loss.

(i) Impairment

BPR Plc assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. BPR Plc recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 32. (a). (iv) provides more detail of how the expected credit loss allowance is measured.

(ii) Modification of loans

BPR Plc sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, BPR Plc assesses whether or not the new terms are substantially different to the original terms. BPR Plc does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

Notes to the financial statement (continued)
37 Summary of significant accounting policies

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, BPR Plc derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, BPR Plc also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and BPR Plc recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iii) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) BPR Plc transfers substantially all the risks and rewards of ownership, or (ii) BPR Plc neither transfers nor retains substantially all the risks and rewards of ownership and BPR Plc has not retained control.

BPR Plc enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if BPR Plc:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by BPR Plc under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because BPR Plc retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which BPR Plc retains a subordinated residual interest.

(iv) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

Financial liabilities at fair value through profit or loss: this classification is applied to derivatives. Gains or losses on derivatives are recognised in profit or loss.;

Notes to the financial statement (continued)

37 Summary of significant accounting policies

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, BPR Plc recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

(v) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between BPR Plc and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by BPR Plc are measured as the amount of the loss allowance. BPR Plc has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and BPR Plc cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Cash and cash equivalents

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

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

Notes to the financial statement (continued)
37 Summary of significant accounting policies

(e) Property and equipment

(i) Initial recognition and measurement

An item of property, plant and equipment are initially recorded at cost which includes all costs necessary to bring the asset to working condition for its intended use. This includes not only its original purchase price but also costs of site preparation, delivery and handling, installation, related professional fees for architects and engineers, and the estimated cost of dismantling and removing the asset and restoring the site. Where purchased software is integral to the functionality of the related equipment, it is capitalized as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. In case of deferred payment for an item of property, plant, and equipment, interest at a market rate is recognized as part of the asset cost.

(ii) Subsequent cost

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to statement of comprehensive income during the financial period in which they are incurred.

(iii) Subsequent measurement

Land and buildings are revalued periodically by external independent valuers. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as revaluation reserves in shareholders' equity. Revaluation reserve will be credited to retained earnings upon disposal of the asset. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserves directly in equity; all other decreases are charged to the statement of comprehensive income.

(iv) Depreciation

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

Buildings	20 – 50 years
Refurbishments	3 – 5 years
Fixtures, fittings and equipment	5 – 10 years
Motor vehicles and motor cycles	4 – 5 years
IT equipment	3 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Notes to the financial statement (continued)

37 Summary of significant accounting policies

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

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit/loss.

(f) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank, are recognised as intangible assets, when the following criteria have been met:

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding five years.

(g) Income tax expense

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that the taxation authority will accept an uncertain tax treatment. The Bank measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The Deferred income tax in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Bank is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the Bank has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed when the customer has the right to direct the identified asset's use and to obtain substantially its economic benefits from that use.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.
The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
– fixed payments, including in-substance fixed payments;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– amounts expected to be payable under a residual value guarantee; and
– the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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Notes to the financial statement (continued)

37 Summary of significant accounting policies

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

From 1 January 2020, where the basis for determining future lease payments changes, the Bank remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2021 Frw'000	1 January 2021 Frw'000
Leasehold premises	1,415,230	2,308,808
Leased equipment	534,435	-

(i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the National Bank of Rwanda, Treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the National Bank of Rwanda.

(j) Employee benefits

(i) Retirement benefit obligations

The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank's contributions to the defined contribution schemes are charged to the statement of comprehensive income in the year in which they fall due.

(ii) Other entitlements

The estimated monetary liability for employees accrued annual leave entitlement at the Statement of financial position date is recognised as an expense accrual.

(k) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(l) Dividends payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(m) Guarantees

Notes to the financial statement (continued)

38 New standards and interpretations not yet adopted (continued)

Guarantees are accounted for as off Statement of financial position transactions and disclosed as contingent liabilities.

Other receivables

Other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

(o) Other payables

Other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Provisions

Provisions are recognised when:
- the Bank has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

38 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Bank. These standards are not expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

These amendments are effective for annual periods beginning on or after 1 January 2022.

IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	Annual periods beginning on or after 1 June 2020 (early adoption is permitted) (Published March 2021)	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	Deferred until accounting periods starting not earlier than 1 January 2024 (Published January 2020)	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.
Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction	Annual periods beginning on or after 1 January 2023. (Published May 2021)	These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences
IFRS 17, 'Insurance contracts', as amended in December 2021	Annual periods beginning on or after 1 January 2023. (Published June 2020)	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

39 Pending merger between Banque Populaire du Rwanda Plc and KCB Ban Rwanda Plc.

On 25 July 2021, KCB Group Plc acquired a majority stake in BPR Plc of 76.67% of its issued share capital from Atlas Mara Mauritius Limited ("AMM") and Arise B.Vat 62.06% and 14.61% irrespectively.

KCB Group Plc has also made a global offer to all the remaining Shareholders of BPR to acquire additional shares in the bank.

KCB Group Plc is in the process of merging the bank with its wholly owned subsidiary, KCB Bank Rwanda Plc. The merger transaction obtained a conditional approval from the National Bank of Rwanda on 31 January 2022 and the directors expect that the merger will be completed by 30 September 2022.

Other regulatory disclosures

		31/12/2021
Item		**Amount**
		(Frw'000')
I. Capital Strength		
a) Core capital (Tier 1)		53,893,950
b) Supplementary capital (Tier 2)		275,327
c) Total capital		54,169,277
d) Total risk weighted assets		225,128,558
e) Core capital/ Total risk weighted assets ratio (Tier 1 ratio)		23.94%
f) Tier 2 ratio		0.12%
g) Total capital/total risk weighted assets ratio		24.06%
h) Leverage Ratio		11.80%
		31/12/2021
		Amount
		(Frw'000')
II. Credit risk		
1. Total gross credit risk exposure: after accounting offsets and without taking into account credit risk mitigation		340,217,779
2. Average gross credit exposure, broken down by major types of credit exposure:		
a) Loans, commitments and other non-derivatives off-balance sheet exposure		214,783,414
b) Debt securities		138,498,771
c) OCT derivatives		-
3. Regional or geographic distribution of exposures, broken down in significant areas by major types of credit exposure;		
	Debt Securities	**Loans & Commitments**
a) Kigali	138,498,771	154,663,761
b) Northern Region	-	13,742,910
c) Southern Region	-	15,363,421
d) Eastern Region	-	18,062,287
e) Western Region	-	12,951,034
4. Sector distribution of exposures, broken down by major types of credit exposure and aggregated :		
	Debt Securities	**Loans & Commitments**
a) Government	138,498,771	14,011,078
b) Financial	-	-
c) Manufacturing	-	15,711,648
d) Infrastructure and construction	-	27,322,650
e) Services and Commerce	-	53,898,898
f) Others	-	103,839,139
5. Off-balance sheet items		6,127,107
6. Non-performing loans indicators		
a) Non-performing loans (NPL)		15,648,184
b) NPL ratio		7.29%

Appendix

	31/12/2021	31/12/2021
	Amount	**Amount**
	(Frw'000')	**(Frw'000')**
7. Related parties		
a) Loans to Directors, shareholders and subsidiaries		-
b) Loan to employees		5,746,075
8. Restructured loans as at 31 December 2021		
a. No. of borrowers		1,980
b. Amount outstanding (Frw '000)		37,234,192
c. Provision thereon (Frw '000) (regulatory):		866,375
d. Restructured loans as % of gross loans		17.84%
III. Liquidity Risk		
a) Liquidity Coverage Ratio		308%
b) Net Stable Funding Ratio		206%

IV. Operational risk		
Type	**Number**	**Frw '000'**
a) Fraud cases	6	45,516
b) Forged documents	2	315
c) Account Manipulation	3	3,751
d) Error	1	0
V. Market risk		
a) Interest rate risk		-
b) Equity position risk		-
c) Foreign exchange risk		1,786,890
VI. Country Risk		
a) Credit exposure abroad		-
b) Other asset held abroad		25,191,192
c) Liabilities to abroad		-
VII. Management and board composition		
a) Number of Board members		7
b) Number of independent Directors		3
c) Number of non-independent Directors		4
d) Number of female Directors		2
e) Number of male Directors		5
f) Number of senior managers		10
g) Number of females senior managers		3
h) Number of males senior managers		7

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