



**INTEGRATED
REPORT
2021**

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The year 2021 brought a lot of challenges, but also strategic solutions for AB Bank Rwanda. In the first half of 2021, lockdowns and severe restrictions on business activity led to a substantial reduction of our loan portfolio. AB Bank continued to support its private entrepreneur clients in this difficult period, through loan restructurings and interest rate waivers. In the second half of 2021, AB Bank's business situation strongly improved, as the business restrictions were gradually lifted and our clients' activities recovered. AB Bank managed to stabilize the loan portfolio and to improve portfolio quality. However, despite improving trend in the second half, 2021 saw a reduction of our net loan portfolio fell by 11% to 8.13 Billion RWF.

AB Bank's creditors strongly supported us in this difficult period and agreed to a loan restructuring, which was implemented in September 2021. AB Bank repaid 40% of the outstanding loan amounts. An additional 40% were waived by the creditors.

This tremendous support allowed us to improve our capitalization, so that we end financial year 2021 with a solid equity position of 3.85 Billion RWF, equivalent to a 33% capital adequacy ratio.

I am grateful for the very high level of commitment and motivation of our employees, which allowed AB Bank to quickly resume business activities in the second half of 2021. The number of loans disbursed increased by 45% (monthly average) from August, compared to January to July, the disbursement volume increased by 62% to 809 Million (monthly average).

Despite all the difficulties during the severe restrictions from early 2020 until July 2021,

our employees worked hard to support our clients and AB Bank.

AB Bank continued to innovate in 2021. We expanded the mobile money service, which now includes outgoing payments as well.

This service is increasingly popular with our clients and helps AB Bank to reduce cash handling and provide a more efficient digitalized service. We streamlined our client analysis systems and digitalized the collection of client data. We continue to innovate in our core lending business, for instance through the introduction of client scoring systems and innovative incentive schemes for our sales teams.

AB Bank remains strongly committed to financial inclusion. We are one of very few financial institutions, who take credit decisions based on the financial strength of a micro business, not based on the available collateral. Our collateral requirements are far easier to fulfill than those of other banks, so we reach clients, who are not eligible for loans from most other banks. For many of our clients we are the first bank ever that they work with.

Even though our client-friendly approach comes with higher risks, we are convinced that this approach has big potential.

As virtually all Covid-related restrictions have been lifted by now, we look forward to growth and expansion of AB Bank's business in 2022 and beyond.

Dianne Dusaidi

Diane Dusaidi
Board Chairperson



We are very pleased to share with you AB Bank Rwanda's 2021 Integrated Report.

Despite the challenges imposed by Covid-19 pandemic on the financial sector and the economy in large, AB BANK Rwanda embraced the profitability path, a performance made possible by the unparalleled ability of our entire organization to revisit status-quos and adapt with rapidly changing business environment, and turn obstacles into impetus for change.

Financial Performance

We ended the year with a profit before tax of 1.49Bn. Our portfolio quality improved with PAR 30 down by 3 points compared to last year, and a substantial alleviation of our liabilities toward banks and other financial institutions.

As far as equity is concerned, our bank achieved a Return-on-Equity (ROE) of 71% , calculated on the year-end 2021 equity,

In 2021, the portion of our total portfolio allocated to the agriculture sector increased by more than 3 fold to reach 858.8 Mio.

Deposits

As at December 31, 2021, ABR had a total deposit portfolio of Rwf 8.6bn, a relatively unchanged amount compared to same period last year.

Additional Highlights 2021

- ◆ ABR continued to streamline its process. Our digital solutions are yielding tremendous results. In 2021, 179,000 transactions were made through our Push and Pull service which allow our clients to conveniently and trustworthily bank with us.

- ◆ We took the opportunity during year 2021 to introduce a Chatbot, which is a self-service platform centralizing digital finance services offered to our clients. It uses an omni-channel service delivery philosophy for customer care, product activation and sales. The Chatbot is accessible through USSD and very soon more channels will be added.
- ◆ We continued to strengthen our culture of curiosity and continuous on-job learning that prioritizes a growth mindset for our employees. During the year, we provided 3,468 hours of training and 62 e-learning modules were completed, compared to 56 the previous year.

We look forward to a more productive and more exciting year! 2022.

Our sincere gratitude goes to our customers, our shareholders, development and strategic partners and strategic business partners for their overwhelming support to AB Bank Rwanda.

Klaus Mueller
Chief Executive Officer



WHO
WE ARE



ABR first opened its door to the public in January 2014 with 1 branch in the Nyamirambo district. Before the dawn of the same year, the bank expanded its network, adding two new branches in the heart of the beautiful town of Kigali namely at Nyarugenge and Gisozi.

Year 2015, ABR inaugurated its 4th branch in Kimironko, becoming the fastest growing bank in its segment. By the end of its third year, the bank was covering most of the strategic areas in the Rwandan capital.

In July 2016, ABR opened its fifth branch, also the first upcountry branch located in Musanze covering the northern part of the country.

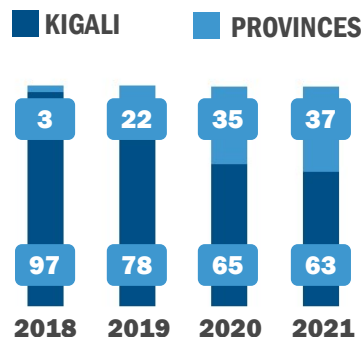
Musanze branch is our flagship branch for rural finance.

In 2018, ABR opened 1 more branch (Nyabugogo) in Kigali. In that same year, ABR expanded its footprint across the country by opening 3 credit outlets situated in Muhanga, Rwamagana and Kabarondo.

In the first quarter of 2019, AB Bank expanded its network with 3 more credit outlets respectively located in Huye, Gicumbi and Nyagatare.

In 2020, AB BANK continued its geographical expansion. To date, ABR has a network of 5 branches and 14 credit outlets in all parts of the country.

REGIONAL PORTFOLIO DISTRIBUTION (%)



“Extending financial services to the underserved.”

2014

ABR founded , 3 branches opened in Kigali.

2015

The 4th branch opened in Kigali.

2016

First branch established outside of Kigali at Musanze.

2018

Opened the 6th branch in Nyabugogo and 3 credit outlets upcountry.

2019

Opened additional 3 credit outlets upcountry.

2022

5 Branches and 14 credit outlets nationwide.



OUR VALUES

Being conscious of our responsibility as a lender in the microfinance sphere, we put significant efforts in treating our clients fairly, and transparently safeguarding their financial soundness and sustainability.

In order to prevent over-indebtedness, we aim to build long-term relationships with our clients, conducting a thorough analysis of their payment capacities and tailoring loan products to suit their needs, while ensuring financing is made available in a timely manner.



Protection of client data by respecting the privacy of individual client data in accordance with the laws and regulations of the local jurisdiction.



Appropriate product design and delivery channels which are tailored to the specific needs of the bank's target clientele – micro entrepreneurs in the informal sector.



Fair and respectful treatment of clients Safeguarding against discrimination, corruption and any kind of aggressive or abusive treatment by its staff and agents.



Prevention of over-indebtedness by ensuring the credit process determines client's repayment capacity without becoming over-indebted.



Responsible pricing which is affordable to clients and allowing for the institution's sustainability.



Mechanisms for complaints and problem resolution for clients and mechanisms to resolve individual problems and improve our products and services.



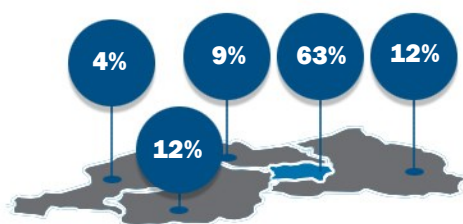
Transparency in pricing and product terms and conditions.



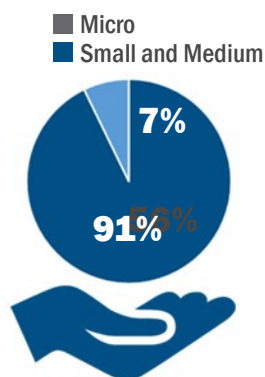
TOTAL PORTFOLIO (Bn Rwf)



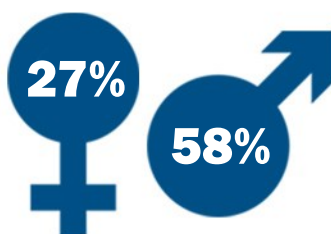
REGIONAL DISTRIBUTION OF PORTFOLIO



PORTFOLIO PER BUSINESS SIZE



GENDER DISTRIBUTION OF PORTFOLIO



A GLIMPSE OF 2021

Despite the challenges imposed by Covid-19 pandemic on the financed businesses thus affecting our business growth targets, especially the loan portfolio, the bank continued its strategic efforts to expand the business footprint mainly targeting the rural clientele.

In 2021 only, we opened 9 credit outlets in major rural business centers, making a total of 15 credit outlets currently operational countrywide.

This geographical expansion enabled the bank to record a 35% increase in the credit portfolio outside Kigali and still on a growth trajectory.



We are committed to the development of the Rwandan financial sector by rendering accessible services to the people and their communities, with excellent quality standards.

Our strategy is articulated around 4 pillars: Growth, Accessibility, Efficiency and Digitalization.

We strive to grow the business income and profit through offer diversification and clients' acquisition, we are committed to grow the banking service accessibility through geo-expansion and we aim at Improving efficiency through business processes automation Implement digital financial services.

We are a socially responsible bank and the bank of choice for micro and small enterprises. We strive to be the leading provider of financial services in this market segment in Rwanda.

Business loans, which are primarily based on the assessment of the borrower's repayment capacity, are the core product of the Bank. We build-up long term business relationships with customers based on responsibility and mutual respect. In doing so, we promote a savings culture and support borrowers to build-up a sound credit history.



BOARD OF
DIRECTORS



DIANNE DUSAIDI
Chairperson

Ms. Dusaidi is Lead Innovations & Entrepreneurship, Transitions at the Mastercard Foundation.

At Mastercard Foundation, she plays a major role in developing strategic partnerships to promote youth employment in the tourism sector.

Ms. Dusaidi holds a MBA in International Business from Maastricht School of Management and a bachelor in Public Administration and Governance from Ryerson University in Toronto, Canada.



ALBERT KINUMA
Director

Albert is currently the African Partnerships Lead at Segovia, a Fintech company based out of New York focusing on payments and international remittances.

In 2010, he launched the first mobile money deployment in Rwanda as the Head of MTN Mobile Money.

A former member of IFC (World Bank Group) where he served as a Digital Financial Services Specialist.

As Senior director at VISA Inc, Albert was in charge of MVISA the first interoperable branchless banking mobile solution in the world.



BERND ZATTLER
Director

Bernd Zattler joined the AB Bank Board of Directors in September 2018.

Mr. Zattler is former Chief Executive Officer of AccessHolding and founder of the consulting firm LFS Advisory GmbH (former name LFS Financial Systems), the founding shareholder of AccessHolding.

His prior professional experience includes work for a multinational firm and other institutions engaged in development finance.

Mr. Zattler holds a PhD in Economics.



GREGOR TAISTRA
Director

Dr. Taistra holds a PhD from Johann Wolfgang Goethe University in Frankfurt and is the Principal Project Manager at KfW Development Bank Germany.

He is a financial sector specialist with focus on financial policy, credit risk assessment, and micro-finance; and was a shareholder representative for various types of micro-finance funds.

Currently, he is mainly involved in managing KfW projects in the field of decentralization in Central Africa.

Dr. Taistra has more than 20 years of experience in the financial sector.



OUR
SHAREHOLDERS



Percentage Shareholdings

As per December 2021

- Access Holding
- KFW
- IFC

67.8%

17.1%

15%

■ AccessHolding

Access Microfinance Holding AG is a private company incorporated in Germany. AccessHolding was founded in 2006 as a partnership among high profile investors from the public sphere (Development Finance Institutions or “DFIs”) and private sector impact investors.

AccessHolding is a strategic investor and active manager of the financial institutions in its network spread across Sub-Saharan Africa, Eurasia and South America.

■ KFW Bank am Verantwortung

International Finance Corporation (IFC) is the private sector arm of the World Bank which creates opportunity for people to escape poverty and improve their lives. IFC fosters sustainable economic growth in developing countries by supporting private sector development, mobilizing private capital and providing advisory and risk mitigation services to businesses and governments.

■ IFC

KfW Development Bank is a member of KfW-Bankengruppe, a promotional bank under the ownership of the Federal Republic of Germany and its federal states.

KfW support programs and projects in developing countries and emerging economies to fight poverty, maintain peace, protect both the environment and the climate and shape globalization in an appropriate way.



CORPORATE
GOVERNANCE



“WE ARE COMMITTED TO THE HIGHEST STANDARDS.”

AB Bank is committed to the highest standards of corporate governance and recognizes that good governance is pivotal in helping the business to deliver its strategies whilst generating sustainable shareholder value and meeting its obligations towards shareholders and other stakeholders.

As required by the Law Relating to Companies N° 17/2018 of 13/04/2018 as amended to date, Regulation No: 01/2018 OF 24/01/2018 on Corporate Governance of Banks and the ABR Memorandum and Articles of Association (MEMARTS), AB Bank's operating policy appreciates the institutional requirement for a transparent governance structure.

This policy ensures a clear distinction between the functions of the Board of Directors and the Management

Team, in which the former is responsible for the definition of the Bank's commercial policies and the supervision of the management (decision controlling), whereas the latter is fully responsible for the day-to-day operative business (decision management).

The governing bodies of the bank are:

General Meeting of Shareholders (GMSH)

This is the highest decision making organ of the Bank. It approves the by-laws and annual financial statements of the company, appoints the Bank's external auditors and decides on the allocation of profits and dividends. The GMSH is composed of all the Shareholders and the Chairman of the Board of Directors if any will preside as Chairman at every General Meeting of the Shareholders.

Board of Directors (BoD)

The Directors who sit on the Board are appointed by the GMSH. The BoD is subordinated to the GMSH. It has a dual mandate of guiding the institution in achieving its corporate mission and protecting the institutions assets over time. Consequently it is responsible for defining the internal corporate policy of the Bank; approving the Strategic Plan and Annual Budget and, importantly, agrees strategies for effective governance.

Board committees

The Board of Directors are assisted in their work by Board Committees. These Committees are Audit Committee, Credit Committee, Risk Management Committee, Nomination and Remuneration Committee and, Board IT Committee. Separate Charters stipulating the governance structure

of each Committee shall be instituted. Each Board Committee is chaired by a non-executive Committee.

The board committees are:

Audit Committee (AC)

The Audit Committee (AC): Its functions are among others to review and confirm the internal audit charter and audit plan; recommend to the BoD the appointment of the external auditor, review its terms of engagement and receive the activity reports and recommendations of the internal audit department.

Credit Committee (CC)

The Credit Committee (CC): Its functions are to review and oversee the overall lending policy of the bank, as well as deliberate and consider loan applications beyond the discretionary limits of the Credit Risk Management Committee, among others.

Board Risk Committee (RCO)

The Board Risk Committee (RCO):

This is a separate Committee of the Board and is appointed by the BoD to which it reports. Its functions are to review and discuss risk reports received from the Management Team, to appraise the risk exposure of the bank and to re-evaluate its risk management policies. As result of publication of regulation No 01/2018 OF 24/01/2018 on Corporate Governance of Banks, the Assets and Liabilities Committee (ALCO) was merged with the Board Risk Committee.

Executive Committee

The Executive Committee also referred to as the Management Team (MT): The Management Team is the principal executive body of the Bank. The MT is appointed by the BoD to which it reports. The MT will make policy proposals to the BoD and will be held responsible for the implementation of the BoD decisions. It carries the overall responsibility for the Bank's operative business. It is composed of the Chief Executive Officer (CEO) and a mini-

mum of two other members, up to a maximum of five, all of whom are appointed by the BoD.

IT committee

Under the Governance structure of the Bank, the purpose of the ITSC is to oversee all IT related functions and to ensure a close alignment of the business and IT strategies. The ITC will work in close partnership with other Board committees and Senior Management to provide input, review and amend the aligned corporate and IT strategies.

Nomination and Remuneration Committee

Under the Governance structure of the Bank, the purpose of the NRC is to review and oversee the remuneration system of the bank, as well as ensure that the Board is effective in its governance function by recommending to the board new board members and members of senior management.

Board of Directors

As of 31 December 2021, the Board of Directors was comprised of the following members:

Names	Title	Organization
Dianne Dusaidi	Chairperson	Independent
Albert Kinuma	Director	Independent
Bernd Zattler	Director	Access Microfinance Holding AG
Gregor Taistra	Director	Kreditanstalt für Wiederaufbau

Membership of the Board Committees

The tables below give record of the membership of AB Bank's Board committees from 1 January 2021 to 1st June 2021 and the revised Board committee memberships from April to June 2021 and from July to December 2021.

Composition of the board committees from 1st January to 1st June 2021

	Audit Committee	Nomination & Remuneration	Risk Committee	Credit Committee	IT Committee
Nick Barigiye		●	●		
Albert Kinuma			●		
Christian Ramm	●			●	●
Diane Dusaidi	●	●	●		
Gregor Taistra				●	●
Bernd Zattler			●		●
Rolf Reichardt	●		●	●	

The board composition was amended in June 2021 after the resignation of Dr. Rolf Reichardt and Christian Ramm on 1st June 2021, the resignation of the two Directors was as a result of the Regulation No. 37/2021 of 21/01/2021 passed on the application of proportionality principle to banks, whose major aim was to adjust supervisory intensity based on risk profile, complexity and business model of banks.

The Board Committees were reduced to Three instead of Five, maintaining Risk, Audit and Credit Board committees, the affairs related to nomination and remuneration are discussed in full board, while issues related to information technology are discussed in Board Risk committee.

The same regulation reduced the number of Board of Directors from 7 to 5, maintaining 3 independent Directors and 2 Executive Directors.

Composition of the board committees from 1st June to 30th June 2021

	Audit Committee	Risk Committee	Credit Committee
Nick Barigiye	●	●	●
Albert Kinuma			
Diane Dusaidi	●	●	
Gregor Taistra		●	●
Bernd Zattler	●	●	●

The board composition was further amended in July 2021 following the resignation of Nick Barigiye on 3rd July 2021.

Composition of the board committees from 1st July to 31st December 2021

	Audit Committee	Risk Committee	Credit Committee
Albert Kinuma	●	●	●
Diane Dusaidi	●	●	●
Gregor Taistra		●	●
Bernd Zattler	●	●	●

Ordinary Board, Board Committees and extraordinary Board meetings attendance

The following table gives the record of attendance (in %) to AB Bank Rwanda Plc's Ordinary Board, its committees and Extraordinary Board meetings for the year ended 31 December 2021.

	Ordinary Board	Audit Committee	Risk Committee	Credit Committee
Nick Barigiye	50%	N/A	50%	50%
Albert Kinuma	100%	50%	100%	N/A
Christian Ramm	25%	25%	N/A	25%
Diane Dusaidi	100%	100%	50%	50%
Gregor Taistra	100%	N/A	N/A	100%
Bernd Zattler	100%	100%	100%	100%
Rolf Reichardt	25%	N/A	25%	25%

Notes

There were four ordinary Board meetings and four Board Audit, Risk and Credit Committees in 2021

The attendance percentages are based on the fact that Dr. Rolf Reichardt and Christian Ramm only attended the Board meetings in the first quarter of 2021 in March and thereafter resigned on 1st June 2021 before the next Board meetings in quarter 2 of 29th June 2021.



FINANCIAL
STATEMENTS
AND NOTES

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED
31 DECEMBER 2021**

The Directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2021 which disclose the state of affairs of AB Bank Rwanda Plc (the “Bank”). The Bank was incorporated as a company on 2 October 2012 and issued with a banking license to operate in Rwanda by the National Bank of Rwanda on 31 December 2013 which was later amended on 15 October 2018. The Bank started operations on 6 January 2014.

1

Principal activities

The principal activity of AB Bank Rwanda Plc is the provision of microfinance services.

2

Results

The results for the year are set out on page 11.

3

Directors

The Directors who served during the period are set out on page 11.

4

Auditor

KPMG Rwanda Limited, the auditors, was appointed in March 2021 and has expressed their willingness to continue in office.

5

Approval of financial statements

The financial statements were approved and authorised for issue by the Directors on 30 March 2022.



By the order of the board

Maureen Umutoni
Acting Secretary

STATEMENT OF THE DIRECTORS RESPONSABILITIES FOR THE YEAR ENDED 31 DECEMBER 2021

The Bank's Directors are responsible for the preparation of financial statements that present fairly, in all material respects, the financial position of the Bank as at 31 December 2021 and its financial performance for the year then ended, in accordance with International Financial Reporting Standards (IFRS), Law No. 17/2018 of 13/04/2018 Governing Companies in Rwanda, and Regulation No. 28/2019 of 09/09/2019 on publication of financial statements and other disclosures by banks in Rwanda, for such internal control as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error, 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 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 annual financial statements give a true and fair view in accordance with the International Financial Reporting Standards and the Law No: 17/2018 of 13/04/2018 Governing Companies in Rwanda, and Regulation No. 28/2019 of 09/09/2019 on publication of financial statements and other disclosures by banks in Rwanda.

Approval of financial statements

The financial statements of AB Bank Rwanda Plc were approved and authorised for issue by the Board of Directors on 30 March 2022.



Chief Executive Officer



Director



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Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AB BANK RWANDA PLC REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of AB Bank Rwanda PLC ("the Bank") set out on pages 12 to 63, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of AB Bank Rwanda PLC 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 (IFRSs) and in the manner required by Law No 007/2021 of 05/02/2021 Governing Companies and Regulation No 28/2019 of 09/09/2019 relating to publication of financial statements and other disclosures by banks.

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 are independent of the Bank in accordance with International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. These matters were 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 these matters.

Key audit matter

How the matter was addressed in our audit

IFRS 9. Expected Credit Losses

Ref to Notes 7 and 17 of the financial statements

- | | |
|---|--|
| <ul style="list-style-type: none">— Measurement of expected credit losses ("ECL") on loans and advances involves significant judgement and estimates. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus are: Economic scenarios – IFRS 9 <i>Financial Instruments</i> requires the Bank to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgment is applied to determining the economic scenarios used and the probability weightings applied to them.. | <p>Our audit procedures in this area included:</p> <ul style="list-style-type: none">— Obtaining an understanding of the credit management processes and performing an end to end process understanding to identify the key systems, applications and controls used in the determination of ECL processes. This included assessing the design and operating effectiveness of the key controls over the staging criteria such as the review and approval of model inputs and outputs.— Using our data and analytics specialists to independently recompute probability of default modelling based on historical days past due reports. |
|---|--|



INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF AB BANK RWANDA PLC
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Key audit matter	How the matter was addressed in our audit
<p>IFRS 9. Expected Credit Losses Ref to Notes 17 and 7 of the financial statements</p> <p>— Significant increase in credit risk ("SICR") – the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12 month or lifetime allowance is recorded. The Bank assesses SICR by incorporating reasonable and supportable qualitative and quantitative information, including forward-looking information. The setting of precise trigger points to move a financial asset from 'Stage 1' to 'Stage 2' or moving from Stage 2' to 'Stage 3' and vice versa respectively requires judgement which may have a material impact upon the size of the ECL allowance;</p> <p>— Model estimations – inherently judgmental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD"), and exposures at default ("EAD"). The PD models used are the key drivers of the Bank's ECL results and are therefore the most significant judgmental aspect of the Bank's ECL modelling approach.</p> <p>We determined that the ECL on loans and advances to customers to be a key audit matter due to the high degree of estimation uncertainty and significant judgement applied by management in the determination of the ECL.</p>	<p>— On a sample basis, we recomputed the loss given default and exposure at default amounts and compared with what management used in the ECL model.</p> <p>— Challenging the accuracy of the key inputs and assumptions into the IFRS 9 impairment models. This was performed by:</p> <ul style="list-style-type: none">▪ Evaluating the appropriateness of the Bank's SICR determination by assessing the qualitative and quantitative factors used by management in their evaluation of the classification into stages 1, 2 and 3;▪ For a sample of key data inputs and assumptions applied in determination of ECL, assessing the accuracy of economic forecasts and challenging assumptions applied by involving our specialists in the reperformance of the economic forecasts and PDs;▪ Evaluating the appropriateness of the Bank's SICR determinations by assessing the qualitative and quantitative factors used by management in their evaluation of the classification into stages 1, 2 and 3;▪ Involving our financial risk management specialists in assessing the appropriateness of the Bank's methodology for determining the economic scenarios used and assessing key economic variables used as well as the overall reasonableness of the economic forecasts by recalculating the macroeconomic factors using the methods applied by management and reviewing the source data;;▪ Evaluating the accuracy of the key inputs and assumptions into the IFRS 9 impairment model by assessing the accuracy of the model predictions by recalculation the ECL amounts, agreeing, on a sample basis, underlying data such as loan amounts, collateral values and interest rates used in the model to relevant source data, and comparing previous years estimates to actual credit losses in the current year;▪ Assessing the appropriateness of parameters used in the statistical models in respect of Probability of Default (PDs), Loss Given Default (LGDs), and Exposure at Default (EADs) by considering local economic conditions, and; <p>— Assessing the adequacy of the disclosures related to the ECL on loans and advances to customers in the financial statements in accordance with IFRS 7 <i>Financial Instruments: Disclosures</i>.</p>

Other information

The Directors are responsible for the other information. The other information comprises the information included in *AB Bank Rwanda PLC Annual Report and Financial Statements for the year ended 31 December 2021*, but does not include the financial statements and our auditor's report thereon.

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



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF AB BANK RWANDA PLC
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

Directors' responsibilities for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by Law No 007/2021 of 05/02/2021 Governing Companies and Regulation No 28/2019 of 09/09/2019 relating to publication of financial statements and other disclosures by banks and for such internal control as the 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, the Directors are responsible for assessing the Bank'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 the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' 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 significant doubt on the Bank'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 Bank 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.



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF AB BANK RWANDA PLC
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

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

We communicate with 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.

From the matters communicated with 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

As required by Law No. 007/2021 of 05/02/2021 Governing Companies, we report to you, based on our audit, that:

- i. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- ii. Proper accounting records have been kept by the Bank, so far as appears from our examination;
- iii. We have no relationship, interest or debt with AB Bank Rwanda PLC. As indicated in our report on the audit of the financial statements, we comply with ethical requirements. These are the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, which includes comprehensive independence and other requirements.
- iv. We have reported internal control matters together with our recommendations to management in a separate management letter.
- v. 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 Bank, the annual financial statements comply with Article 125 of Law No. 007/2021 of 05/02/2021 Governing Companies.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Wilson Kaindi – CPA/0642/0123.

Wilson Kaindi

KPMG Rwanda Limited
Certified Public Accountants
P O Box 6755
Kigali, Rwanda



Date: *31 March* 2022

**STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
AUDITED BY EXTERNAL AUDITORS**

in `000 Frw		2021	2020
	Note		
Interest income accounted for using effective interest method	5	4,407,235	4,050,746
Interest expense	6	(1,270,011)	(1,481,351)
Net interest income before allowance for impairment losses on interest-bearing assets		3,137,224	2,569,395
Impairment charge for loan losses	7	(571,456)	(925,234)
Net interest income		2,565,768	1,644,161
Fee and commission income		201,721	158,276
Fee and commission expense		(8,302)	(4,824)
Net fee and commission income	8	193,419	153,452
Net result from foreign exchange operations	9	(53,483)	(9,586)
Net other operating income	10	2,278,476	(102,528)
Net non-interest income		2,418,682	41,338
Net operating income		4,984,450	1,685,499
Personnel expenses	11	(2,021,941)	(1,830,618)
Depreciation and amortization expenses	12	(403,739)	(405,372)
Lease expenses	12	(58,216)	(73,190)
Other administrative expenses	12	(1,010,199)	(981,805)
Total operating expenses		(3,494,095)	(3,290,985)
Profit before tax		1,490,355	(1,605,486)
Income tax (expense)/credit	13	90,844	(370,191)
Profit for the year		1,581,199	(1,975,677)
Other comprehensive income		-	-
Total comprehensive income		1,581,199	(1,975,677)

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2022 and were signed on its behalf by:

Chief Executive Officer

Chairperson of the Audit Committee

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021
AUDITED BY EXTERNAL AUDITORS**

	Note	2021	2020
in `000 Frw			
ASSETS			
Cash and cash equivalents	14	731,288	2,589,859
Debt securities	15	1,363,785	364,866
Loans and advances to banks	16	1,567,534	1,715,303
Loans and advances to customers	17	8,132,971	9,163,116
Other financial assets	18	161,316	135,839
Other non-financial assets	19	282,718	459,156
Intangible assets	20	77,350	115,771
Property and equipment	21	673,055	717,092
Rights-of-use assets	22	907,869	1,295,817
Deferred income tax asset	23	932,935	842,091
Total assets		14,830,821	17,398,910
LIABILITIES			
Loans from banks and other financial institutions	24	1,019,422	4,805,851
Customer accounts	25	8,646,478	8,660,704
Provisions	26	119,406	74,845
Lease liabilities	39	951,219	1,288,744
Other financial liabilities	27	153,670	97,561
Other non-financial liabilities	28	88,938	78,409
Subordinated debt	29	-	247,307
Total liabilities		10,979,133	15,253,421
EQUITY			
Share capital	30	11,461,300	11,336,300
Accumulated losses		(7,609,612)	(9,190,811)
Total equity		3,851,688	2,145,489
Total liabilities and equity		14,830,821	17,398,910

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
AUDITED BY EXTERNAL AUDITORS**

For year ended 31 December 2021

in `000 Frw

	Notes	Share capital	Accumulated losses	Total equity
Carry Forward as at 1 January 2021		11,336,300	(7,215,134)	4,121,166
Loss for the year		-	1,581,199	1,581,199
Total comprehensive income		-	1,581,199	1,581,199
Issue of share capital		125,000	-	125,000
Balance as at 31 December 2021		11,461,300	(7,609,612)	3,851,688

For year ended 31 December 2020

in `000 Frw	Notes	Share capital	Accumulated losses	Total equity
Carry Forward as at 1 January 2020		11,336,300	(7,215,134)	4,121,166
Loss for the year		-	(1,975,677)	(1,975,677)
Total comprehensive income		-	(1,975,677)	(1,975,677)
Issue of share capital		-	-	-
Balance as at 31 December 2020		11,336,300	(9,190,811)	2,145,489

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021
AUDITED BY EXTERNAL AUDITORS**

in `000 Frw	Note	2021	2020
Profit			
Loss before tax		1,490,355	(1,605,486)
Adjustments for non-cash items:			
Impairment charge for loan losses	7	572,259	1,023,686
Unrealised (gain)/loss from currency revaluation	9	3,675	5,003
Depreciation and amortisation expense	12	403,739	405,372
Gain on debts restructuring		(2,252,764)	-
Interest income	5	(4,407,235)	(4,050,746)
Interest expense	6	1,270,011	1,481,351
Cash flows used in operating activities before changes in operating assets and liabilities		(2,919,960)	(2,740,820)
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Loans and advances to customers		4,045	247,339
Other assets		150,961	(295,657)
Interest received		4,447,155	4,076,253
Increase/(decrease) in operating liabilities			
Loans from banks and other financial institutions		-	81,891
Customer accounts		(28,272)	(2,396,056)
Other liabilities		66,638	6,639
Provisions		44,561	28,379
Interest paid		(761,535)	(987,167)
Cash (outflow)/inflow from operating activities before taxation		1,461,593	(1,979,199)
Income tax paid		-	-
Net cash (outflow)/inflow from operating activities		1,462,396	(1,979,199)
Cash flow from investment activities			
Purchase of intangible assets	20	-	(94,742)
Purchase of property and equipment	21	(112,275)	(161,276)
Purchase of debt securities	15	(998,919)	(359,985)
Sale of property and equipment		-	-
Net cash outflow from investing activities		(1,111,194)	(616,003)
Cash flow from financing activities			
Proceeds from issuance of ordinary shares		125,000	-
Payment of lease liabilities		(158,583)	(186,468)
Net proceeds from issuance/(net repayments) of debt		(2,323,156)	-
Net cash (outflow)/inflow from financing activities		(2,356,738)	(186,468)
Effect of changes in foreign exchange rate on cash and cash equivalents		-	32,501
Total Cash flow		(2,006,340)	(2,749,169)
Cash and cash equivalents, beginning of year		4,305,162	7,054,331
Cash and cash equivalents, end of year		2,298,822	4,305,162

NOTES TO THE FINANCIAL STATEMENTS

Reporting Entity

AB Bank Rwanda, is a limited liability company incorporated and domiciled in Kigali, Rwanda. Its registered office is at 15 KN 78 Street, P.O. Box 671, Kigali, Rwanda. Its parent and ultimate holding company is Access Microfinance Holding AG. Banking operations started on 6 January 2014. The principal activities of the Bank, as a microfinance bank, is providing financial services to micro, small and medium sized enterprises as well as to the general public. The financial statements for the year ended 31 December 2021 were authorised for issue by the Bank's Board of Directors on 30 March 2022.

Accounting policies

Basis of preparation

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities that have been measured at amortised cost, or at fair value through profit or loss. The financial statements are presented in Rwandan francs (Frw), which is the presentation currency of the Bank and all values are rounded to the nearest thousands, except when otherwise indicated. All values below Frw 500 are presented as zero and all “-“ represent no value.

Details of the Bank's significant accounting policies, including changes during the year, are included in note 2.3.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and the International Financial Reporting Interpretation Committee (IFRIC) interpretations and comply with the Law No: 007/2021 of 05/02/2021 Governing Companies in Rwanda.

Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 36.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Significant accounting judgements, estimates and assumptions

The COVID-19 pandemic and its effect on the global economy have impacted our customers, operations and Bank performance necessitating governments to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. This has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- ◆ the extent and duration of the disruption to business arising from the actions of governments, businesses and

NOTES TO THE FINANCIAL STATEMENTS

(1) Reporting Entity

AB Bank Rwanda is a limited liability company incorporated and domiciled in Kigali, Rwanda. Its registered office is at 15 KN 78 Street, P.O. Box 671, Kigali, Rwanda. Its parent and ultimate holding company is Access Microfinance Holding AG. Banking operations started on 6 January 2014. The principal activities of the Bank, as a microfinance bank, is providing financial services to micro, small and medium sized enterprises as well as to the general public. The financial statements for the year ended 31 December 2021 were authorised for issue by the Bank's Board of Directors on 30 March 2022.

(2) Accounting policies

(2.1) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities that have been measured at amortised cost, or at fair value through profit or loss. The financial statements are presented in Rwandan francs (Frw), which is the presentation currency of the Bank, and all values are rounded to the nearest thousands, except when otherwise indicated. All values below Frw 500 are presented as zero and all “-“ represent no value.

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(2.2) Significant accounting judgements, estimates and assumptions

The COVID-19 pandemic and its effect on the global economy have impacted our customers, operations and Bank performance necessitating governments to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. This has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- ◊ the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- ◊ the extent and duration of the expected economic downturn, and subsequent recovery;

◊the effectiveness of government and central bank measures to support businesses and consumers through this disruption and economic downturn.

The Bank has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2021 about future events that the Directors believe are reasonable in the circumstances. The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses.

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ◊The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- ◊The segmentation of financial assets when their ECL is assessed on a collective basis
- ◊Development of ECL models, including the various formulas and the choice of inputs
- ◊Determination of associations between macroeconomic scenarios and, economic inputs, such as staff turnover and collateral values, and the effect on PDs, EADs and LGDs
- ◊Selection of forward-looking macroeconomic scenarios to derive the economic inputs into the ECL models

For more details, please refer to note 2.3.1 "Impairment of financial assets – Overview of the ECL (Expected-Credit-Loss) principles".

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary. The Bank's management has taken its best effort in incorporating impact of COVID 19 in its estimation

of the ECL.

Income taxes

The Bank recognizes deferred income tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilized. Judgement is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits. The profit projection is based on the latest business plan 2022-2024 as of December 2021 and therefore reflects management's best estimate on future taxable profits.

Modification losses and additional interest income

As an effect of the pandemic the Bank has put large parts of its loan portfolio in moratorium for one up to three months. The moratoria were executed in a way which moved the payment obligation for the interest which would have been charged during the moratorium period to the last instalment of the respective loan. However, the system would allow these interests to be waived at maturity. IFRS 9 would require the recognition of a modification loss at the time of the moratorium and an interest accrual on the reduced net present value during the moratorium period. The amount of the modification loss and the additional interest income largely depend on the percentage of loan clients for which the interests are indeed charged and the share of loan clients for which they are waived. The Bank neither recognized the modification loss, nor the additional interest income as we expect a rate of approximately 10% of clients for which the interests are charged. In this scenario the net financial impact would be immaterial. In the below overview we present the expected financial impact for alternative percentages of application/payment:

100%: RWF 387,945 thousand additional net income

50%: RWF 171,594 thousand additional net income

20%: RWF 41,783 thousand additional net income

0%: RWF 44,758 thousand additional net expense

Going concern

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

Accounting for leases

In establishing the lease term for each lease contract that has an option to extend, judgement has been applied to determine the extension period. When it is concluded that it is reasonably certain that the extension option will be utilised, the lease term is extended to include the reasonably certain period of one to five years, depending on the specific lease contract. The Bank assumed that all of the existing leases expiring within the following five years, that have an extension option, will be extended, when determining the lease term.

In addition, IFRS 16 requires lease payments to be discounted using the interest rate implicit in the lease. In case the interest rate implicit in the lease cannot be readily determined, the incremental borrowing rate should be used. That is the rate of interest that a lessee would have to pay to borrow over a similar value to the right-of-use asset in a similar economic environment. Accordingly, the Bank elected to use the local borrowing rates for each operating

unit at the commencement date. That is the rate at which local operating units would need to borrow to acquire the asset.

Summary of significant accounting policies

(2.3.1) Accounting policies in accordance with IFRS 9 Financial Instruments

Financial instruments – initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and customer accounts, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises customer accounts when funds are transferred to the Bank.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes "Business model assessment" and "The SPPI test". Financial instruments are initially measured at their fair value, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised. In 2020 and 2021, there were no transactions with day 1 profits or losses.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. In 2020 and 2021 all financial assets were measured at amortised cost.

As a rule, financial liabilities must be measured at amortised cost. In addition, the possibility exists of applying the fair value option.

Financial assets and liabilities

Loans and advances to banks, Loans and advances to customers and Debt securities

The Bank measures Loans and advances to banks, Loans and advances to customers and Debt securities at amortised cost if both of the following conditions are met:

◇The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

◇The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

◇Business Model "hold to collect" – receipt of contractual cash flows with only rare or immaterial sales activities.

◇Business Model "hold to collect and sell" – receipt of cash flows through holding and also through sales.

◇Residual Business Model – all portfolios that are not allocated to the "hold to collect" or "hold to collect and sell" business model. These include primarily trading portfolios and portfolios managed on a fair value basis. The receipt of contractually agreed cash flows is of minor importance; the main objective is instead to maximize cash flows through purchases and sales.

The business model assessment is based on reasonably expected scenarios (taking into account the amount, frequency and the date of sales) without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Bank holds its financial assets within the "hold to collect" business model.

The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of debt instruments to identify whether they meet the SPPI test.

For this purpose, the characteristics of cash flows of the financial instrument are examined on an instrument-by-instrument basis. In the assessment, it must be decided whether the cash flows essentially represent interest and principal payments on the outstanding capital. In principle, a financial instrument is SPPI-compliant only if its contractual cash flows are equivalent to those of a simple loan.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Impairment of financial assets

Overview of the ECL (Expected-Credit-Loss) principles

The Bank is recording the allowance for expected credit losses for all loans and other debt financial assets, in this section all referred to as "financial instruments".

The Bank segments the loan portfolio according to product type, arrears category and whether or not the loan was disbursed prior or after the COVID pandemic started in March 2020.

In regard to cash and cash equivalents, loans and advances to banks, debt securities at amortised cost, and other financial assets, the Bank assumes low credit risk and applies the low credit risk exemption according to IFRS 9.5.5.10. The debt securities measured at amortised cost are short-term treasury bills. No defaults have been incurred. With these considerations in mind, the Bank considers for the above-mentioned instruments that the prob-

ability of default is very low and therefore provisioning (12mECL) is insignificant.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in note "The calculation of ECLs".

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on portfolio level (collective basis). Only for those cases, where certain notional thresholds are breached, there is an additional analysis on individual asset level. In any case, collective provisioning rates are applied at least.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1:** A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1'. Financial instruments in this stage have their ECL measured at an amount equal to the portion of life time expected credit losses that result from default events possible within the next 12 months. Stage 1 includes all financial instruments, which did not exhibit a "significant increase in credit risk" and for which no signs of impairment have been observed. The reference date is the date of initial recognition. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2. Significant increase in credit risk is defined whether the credit risk of default on a financial instrument has increased significantly since initial recognition (significant increase in credit risk is defined as stage 2 (30 days PD) per the group credit risk policy), 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 and including forward-looking information.
- Stage 2:** Consists of all loans that appear to show a significant increase in credit risk, but is not yet deemed to be credit-impaired. As a general rule, loans between 30-90 days of arrears are classified under Stage 2, unless other signs of impairment are observed. Generally, loans more than 30 days overdue are not moved back to Stage 1 except for individually assessed loans where a discounted cash flow analysis reveals lower risk than the days-past-due information would indicate. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3:** Consists of all loans, for which there is evidence of credit-impairment. As a general rule, loans above 90 days of arrears are classified under Stage 3, unless individual assessment indicates lower likely losses, as evaluated based on analysis of discounted cash flows.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered (partial) derecognition of the financial asset.

The calculation of ECLs

The Bank calculates ECLs to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.
- EAD** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied actual EAD at the end of the reporting period and multiplied by the expected LGD, which is calculated by discounting expected recoveries using an estimation of the EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument.

The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3 For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting and discounted by the credit-adjusted EIR.

Individually insignificant (collective)

All on-balance sheet credit exposures (non-restructured and restructured) that at the reporting date have an outstanding balance (principal only) of USD 30,000 or less are treated as individually insignificant unless the Bank explicitly assesses the credit exposure as individually significant upon approval by Access Microfinance Holding.

Individually significant

All on-balance sheet credit exposures (non-restructured and restructured), that at the reporting date have an outstanding balance (principal only) of more than USD 30,000, are treated as individually significant. Additionally, the Bank has the possibility to consider credit exposures below this threshold as individually significant in rare circumstances and only upon the written approval of Access Microfinance Holding.

With regards to restructured loans the mechanics of the ECL method are similar to those described above, but with the restriction that restructured loans can't be allocated to Stage 1. Furthermore, the parameters for the ECL model are different compared to the parameters applied for non-restructured loans.

Grouping of instruments for losses measured on a collective basis

Future cash flows in a group of financial assets are collectively evaluated for impairment to be estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

The Bank collects default matrices to capture, in the calculation, the loans disbursed between the periods of analysis. The outstanding principal amount at the beginning of the current period/end of previous period is distributed per product category (Micro, SME, Staff, Other), and within each product category distributed per each arrears category (i.e., 0, 1-30, 31-90, 91-180, > 180 days).

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes (see note 37).

Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Forward looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Foreign exchange rates
- Staff turnover
- Copper prices

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments are occasionally made as management judgement to adjustments when such differences are significantly material. The presentation of ECL based on forward looking information is presented in note 36. The Bank applies a set of three internally developed scenarios within the scope of applied ECL model and their respective probabilities. A base scenario, an adverse scenario (downside scenario) and a favourable scenario (upside scenario). As at 31.12.2021 the Bank used one base scenario within the scope of applied ECL model as the effects of different scenarios did not have significant impact on the ECLs.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to Impairment charge for loan losses.

Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department (e.g., fraudulent activities). Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off. When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 6-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

Principal and interest repayments on the loan have been repaid without any overdue over the six-month period. In case of forbearance, where the client is allowed to service only interest for some months before paying principal instalments, the six-month period will begin from the date the first principal payment is due. If the loan is changed into a bullet repayment loan with the entire outstanding principal amount repayable at the end, then the loan cannot be reclassified out of the forbore category.

At the end of the six-month period, the Bank's Recovery Committee must conduct a further assessment of the client's repayment capacity to determine that no quantitative or qualitative impairment remains.

If modifications are substantial, the loan is derecognised, as explained in section derecognition due to substantial modification of terms and conditions.

Derecognition of financial assets and liabilities

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, the Bank considers the following qualitative factors:

- ◇Change in currency of the loan
- ◇Change in counterparty
- ◇If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different (Present value change by <10%), the modification does not result in derecognition.

Recognition of interest income

The effective interest rate method

Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). Loan disbursement fees for loans are deferred (together with related direct costs) and recognised as part of the effective interest rate of the loan.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest income in the statement of profit or loss.

Interest income accounted for using the effective interest method

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired (as set out in note “Overview of the ECL principles”) and is, therefore, regarded as ‘Stage 3’, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

(2.3.2) Foreign currency translation

The financial statements are presented in Rwandan Francs (Frw). Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (“the functional currency”).

Transactions in foreign currencies are initially recorded at the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. All differences are recognised in Net result from foreign exchange operations in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The following exchange rates were applied in these financial statements.

Foreign currency equals	Abbreviation	31/12/2021	31/12/2020
United States Dollar	USD	1,009.62	972.48
Euro	EUR	1,142.89	1,195.37

Please refer to note 36 for currency exchange risk.

(2.3.3) Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

(2.3.4) 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 on the basis of the expected useful lives.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(2.3.5) Depreciation and impairment of non-financial assets

Depreciation on property and equipment and intangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- ◇ Leasehold improvements 15 years
- ◇ Computers 4 years
- ◇ Furniture 7 years
- ◇ Motor vehicles 4 years
- ◇ Software 2-5 years

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of profit or loss.

(2.3.6) Deferred income tax

Deferred income tax is recognised, 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, the deferred income

tax is 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 nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets including carry-forward tax-losses are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences, tax credits or unused tax losses can be utilised.

(2.3.7) Other financial assets, other financial liabilities

Other financial assets and other financial liabilities are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost. Other financial assets and other financial liabilities generally comprise trade receivables and trade payables.

(2.3.8) 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. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- ◇ The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- ◇ The Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- ◇ The Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
 - ◇ The Bank has the right to operate the asset; or
 - ◇ The Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

As a lessee

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 the underlying asset or to restore the underlying asset, less any lease incentives received.

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 re-measurement 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 Bank's incremental borrowing rate. Lease payments included in the measurement of 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
- ◇ 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
- ◇ 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, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured 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.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value asset (less than USD 5,000). The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Bank has applied the practical expedient related to Covid-19-related rent concessions to all concessions that meet the conditions in the amendment.

(2.3.9) Provisions

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

(2.3.10) Non-current assets held for sale

Non-current assets and repossessed properties, which the Bank classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and repossessed properties are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal Bank is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Property and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(2.3.11) Share capital

Share capital is recognized at historical costs. Any incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(2.3.12) Employee benefits

i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(2.3.13) Cash and Cash Equivalents

Cash and cash equivalents include 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.

3. Change in significant accounting policies

Changes to IFRS 9 provisioning due to COVID-19 impact

As a fallout of the ongoing COVID-19 pandemic and related lockdowns, the financial assets of banks across the world have been negatively impacted. Although widespread, these negative effects are not likely to prolong into the long term. Further, it is likely that in the long term, banks will benefit from economic stimulus packages and other support measures.

Our customers have also been adversely affected by the health risks and by government-mandated business and travel restrictions. The effect on the loan portfolio of the Bank is summarized below:

- ◇ The majority of loan payment plans were changed, primarily following mandates from the Central Bank. Such restructuring included payment moratorium (generally less than three months) and / or extension of maturity of loans
- ◇ After the expiry of the moratorium period, some clients experienced difficulty repaying their instalments. However, it has been observed that repayment share on the affected portfolio has been improving month-on-month, returning to pre-COVID levels
- ◇ The Bank selectively offered further rescheduling assistance to selected clients on a bona fide basis, to help them reduce their financial stress. Thus, there are loans that were restructured more than once, often first at government instruction and second at either additional instruction or in order to accommodate customer constraints.
- ◇ Fresh disbursement of loans was reduced during the initial periods of lockdown and disbursements resumed in June 2020. We have observed that fresh loans disbursed after the lockdown do not follow the repayment patterns of loans affected by COVID-19 lockdowns.

Nonetheless, the unexpected decline in the quality of financial assets and the current uncertainties posed by the fallout of pandemic have introduced significant challenges to estimating credit losses (ECL) as required under IFRS 9. International accounting bodies have acknowledged these challenges and have suggested that banks make appropriate changes to their models for estimating ECL, including making management overlays where necessary.

Based on available data on performance of loans at different time points, the Bank management considers carving out loans affected by COVID-19 into a separate pool and estimating ECLs on these loans separately would be the best and most scientific approach.

The Bank has been mandated by the government/Central Bank to offer repayment moratoria. Given that the restructuring is a temporary measure under the current extraordinary circumstances, we believe that these modifications per se do not lead to a significant increase in credit risk. There is no other factor that would necessitate such restructuring under the normal course of business.

Further, we expect that over the total extended duration of the modified loans, our clients will be able to repay their dues fully once the current restrictions on businesses are eased. Therefore, considering the maximum contractual period (including extension options), the expected credit losses (ECL) on loans restructured due to the current COVID-19 crisis will not exceed the ECL associated with non-restructured loans.

Accordingly, for loans restructured due to the ongoing COVID-19 crisis, the Bank will continue providing for 12-month expected credit losses at the ECL rates applicable for non-restructured loans.

In addition to the changes described above, it is anticipated that the methodology for adjusting the calculated ECL based on forward-looking information would need to be changed, incorporating inter alia:

- ◇ Upside and downside scenarios for macro-economic and internal operational factors that are part of the model.
- ◇ Management overlays for the expected impact of government stimulus packages and other support measures.
- ◇ Management overlays for recovery of local markets and economic recovery post introduction of vaccine.

In accordance with IFRS 9, the changes to the methodology for estimating ECLs will be reviewed periodically, based on progression of COVID-19 affected portfolio and availability of more reliable and consistent data on loan performance.

COVID-19-related rent concessions

The Bank has adopted COVID-19-related rent concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Bank is a lessee – i.e., for leases to which the Bank applies the practical expedient, the Bank is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Bank has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020. There are a number of other new standards are also effective from 1 January 2021 but they do not have a material effect on the Bank's financial statements. The details of the accounting policies are disclosed in Note (4).

(4) New and amended standards and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year ended 31 December 2021

The following new or amended standards and interpretations have become effective for financial years beginning on or after 1 January 2021:

Amendments to References to the Conceptual Framework in IFRS Standards were issued on 29 March 2018. The amendments aim to update, in existing Standards, references to, and quotes from, the existing version of the Conceptual Framework or the version that was replaced in 2010 so that they refer to the revised Conceptual Framework. The amendments are effective for annual periods beginning on or after 1 January 2020. Earlier application is permitted. The amendments did not have any impact on the Bank's financial statements.

Definition of Material (Amendments to IAS 1 and IAS 8) was issued on 31 October 2018. IAS 1 has been revised to incorporate a new definition of "material" and IAS 8 has been revised to refer to this new definition in IAS 1. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. According to current knowledge, the amendments did not have any significant impact on the Bank's financial statements.

Business Combinations (Amendments to IFRS 3) were issued on 22 October 2018. The amendments change the implementation guidance of IFRS 3 in order to improve the determination if an acquirer has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. The amendments did not have any impact on the Bank's financial statements.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) was issued on 26 September 2019. These changes affect the impact of the IBOR reform (phase one of the project) on the financial reporting. IBOR (Interbank Offered Rates) are reference interest rates such as LIBOR, EURIBOR and TIBOR, which represents the costs of unsecured funding in a specific combination of currency and maturity within inter banking market. The amendments address accounting issues prior to the change to alternative benchmark interest rates and shall avoid discontinuation of hedge accounting. The amendments are effective for annual periods beginning on or after 1 January 2020. Earlier application is permitted. The amendments did not have any impact on the Bank's financial statements.

COVID-19-Related Rent Concessions (Amendment to IFRS 16) Leases was issued on 28 May 2020. The amendment simplifies how lessees account for rent concessions. These amendments introduce a practical expedient for lessees – i.e., a lessee is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. Instead, it accounts for them under other applicable guidance. The amendment is effective for annual periods beginning on or after 1 June 2020. The amendments did not have any impact on the Bank's financial statements.

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2021

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2021, and have not been applied in preparing these financial statements. The Bank does not plan to early adopt these standards. These will be adopted in the period that they become mandatory.

Standard/Interpretation	Effective date Periods beginning on or after
IAS 37 amendment	Onerous Contracts: Cost of Fulfilling a Contract . 1 January 2022
IFRS 1, IFRS 9, IFRS 16 and IAS 41 amendments	Annual Improvements to IFRS Standards (2018 – 2020). Amendments to IFRS 1, IFRS 9, illustrative examples accompanying IFRS 16 and IAS 41. 1 January 2022
IAS 16 amendment	Property, Plant and Equipment: Proceeds before Intended Use 1 January 2022
IFRS 3 amendment	Reference to the Conceptual Framework 1 January 2022
IFRS 17	Insurance Contracts 1 January 2023
IAS 1 amendments	Classification of liabilities as current or non-current 1 January 2023
IAS 8 amendments	Definition of accounting estimate 1 January 2023
IAS 1 and IFRS practice statement 2	Disclosure of accounting policies 1 January 2023
IAS 12 amendments	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) 1 January 2023
IFRS 10 and IAS 28 amendments	Sale or contribution of assets between an investor and its associate or joint venture Deferred indefinitely

The above new and amended standards are not expected to have a significant impact on the Bank's financial statements.

(5) Interest income accounted for using the effective interest method

Interest income is broken down as follows:

in `000 Frw	2021	2020
Interest income from loans and advances to customers	4,084,605	3,677,400
Interest income from loans and advances to banks	262,941	343,769
Interest income from debt securities at amortized cost	59,689	29,577
Total	4,407,235	4,050,746

(6) Interest expense

Interest expense is broken down as follows:

in `000 Frw	2021	2020
Interest expense on borrowings	552,971	652,572
Interest expense on term deposits	482,651	523,825
Interest expense on savings accounts	91,475	172,113
Interest expense on lease liabilities	142,644	132,841
Total	1,270,011	1,481,351

(7) Impairment charge for loan losses

in `000 Frw	2021	2020
Allowance for the period/year	572,259	1,023,686
Income from recovery of written-off loans	(92,031)	(98,452)
Expenses on loan recoveries	91,228	-
Total	571,456	925,234

The table below shows the ECL charges on financial instruments for the year recorded in the statement of profit or loss:

2021 in `000 Frw	Stage 1	Stage 1	Stage 2	Stage 2	Stage 3	Total
	Individual	Collective	Individual	Collective		
Loans and advances to customers	(59,610)	20,309	(89,252)	11,972	780,068	663,487
Income from recovery of written-off loans	-	-	-	-	(92,031)	(92,031)
Impairment charges for loan losses	(59,610)	20,309	(89,252)	11,972	688,037	571,456

The table below shows the ECL charges recorded in the statement of profit and loss during 2020:

2020 in `000 Frw	Stage 1	Stage 1	Stage 2	Stage 2	Stage 3	Total
	Individual	Collective	Individual	Collective		
Loans and advances to customers	(34,840)	53,841	(65,442)	85,651	984,476	1,023,686
Income from recovery of written-off loans	-	-	-	-	(98,452)	(98,452)
Impairment charges for loan losses	(34,840)	53,841	(65,442)	85,651	886,024	925,234

(8) Net fee and commission income

Net fee and commission income is broken down as follows:

In '000 Frw	2021	2020
Account maintenance fee	84,955	67,109
Loan application fee	54,903	33,588
Other account service fees	33,339	17,328
Fee and commission income from insurance brokerage	5,580	14,600
Fees from cash transactions	7,793	6,097
Fees on cheques	2,732	5,941
Fees from money transfer	1,993	1,520
Other fees from customers	10,426	12,093
Total fee and commission income	201,721	158,276

Other fees from customers includes fees mainly relate to fees for account balance to customers in the amount of Frw 8,332 thousand (2019: Frw 5,094 thousand) and fee income from certification of loans in the amount of Frw 3,368 thousand (2019: Frw 3,716 thousand).

In `000 Frw	2021	2020
Other fees to banks	(8,302)	(4,824)
Net fee and commission income	193,419	153,452

(9) Net result from foreign exchange

Net result from foreign exchange is broken down as follows:

in `000 Frw	2021	2020
Gains/(losses) from foreign exchange operations with customers	(617)	(43)
Gains/(losses) from currency revaluations	(3,675)	(5,003)
Gains/(losses) from foreign exchange operations with banks	(49,191)	(4,540)
Total	(53,483)	(9,586)

(10) Net other operating income

Net other operating income is broken down as follows:

in `000 Frw	2021	2020
Other operating income	13,066	8,127
Bancassurance income	16,314	-
Modification gain from loans from banks and other financial institutions	2,252,764	-
Total other operating income	2,282,146	8,127
Modification loss from loans from banks and other financial institutions	-	81,891
Expenses for litigation settlements	-	12,000
Write-off of receivables	-	8,741
Expenses for impairment of repossessed property	-	5,000
Other operating expense from group companies (IT audit ABN)	-	3,018
Penalties and surcharges	3,400	5
Total other operating expenses	3,400	110,655
Net result	2,278,746	(102,528)

The modification gain was a result of restructuring agreement in August 2021 where the bank and lenders agreed on a waiver of 40% of the outstanding debts together with new repayment plan initial restructuring agreement from 20 December 2019.

(11) Personnel expenses

The breakdown of personnel expenses is as follows:

in `000 Frw	2021	2020
Salary expenses	1,831,451	1,593,151
Social security expenses	28,652	76,111
Other personnel expenses	161,838	161,356
Total	2,021,941	1,830,618

(12) Other operating expenses

The breakdown of other operating expenses is as follows:

In'000 Frw	2021	2020
Short-term lease expenses	31,162	55,857
Expenses for low-value leases	27,055	17,333
Sub-total lease expenses	58,216	73,190
Depreciation expenses of right of use assets	209,006	220,502
Depreciation expenses of property and equipment	156,312	119,904
Amortization expenses of intangible assets	38,421	64,966
Sub-total depreciation and amortization expenses	461,955	405,372
Communication expenses	201,032	177,281
Transport expenses	82,654	43,347
Travel expenses	9,104	15,780
IT expenses	22,936	38,728
Utilities expenses	49,998	59,150
Printing and office supplies	54,599	21,078
Security expenses	92,203	88,996
Marketing	14,882	49,784
Other consumables	11,223	31,604
Office cleaning expense	4,895	-
Consultancy	175,772	142,087
Legal expenses	63,653	52,141
Insurance expenses	44,933	31,034
Other tax expenses	6,113	20,000
Repairs and maintenance	32,129	35,190
Audit fees	39,072	30,440
Professional membership (AMIR, RBA)	10,184	2,859
Board expenses	32,096	25,040
BNR Supervision fee	14,131	14,710
Impairment of property, plant and equipment	-	36,403
Various expenses	48,589	66,153
Sub-total other administrative expenses	1,010,199	981,805
Total	1,472,154	1,460,367

(13) Income tax expense

The breakdown of income tax expenses is as follows:

in `000 Frw	2021	2020
Deferred income tax expense (Income)	(90,844)	370,191
Total	(90,844)	370,191

The following table shows the reconciliation between accounting loss and income tax expense:

Tax reconciliation in `000 Frw	2021	2020
Profit (Loss) before income tax	1,490,355	(1,605,486)
Income tax rate of	30%	30%
Expected income tax expense	447,107	(481,646)
Tax effects		
+ Effect of write-down of previous year deferred tax assets	(532,544)	850,168
+ Effect of non-recognized income tax losses	-	-
+ Effect of tax disallowable expenses	11,722	14,230
+/- Effects on tax on leases	(17,120)	-
+ Deferred tax expense arising from write-down of a deferred tax asset	-	-
+/- Other tax effects	(9)	(12,561)
Income tax expense	(90,844)	370,191

The various tax effects explain the differences between the expected income tax expense of Frw 447,107 thousand (2020: Frw -481,646 thousand) on the basis of the enacted income tax rate and the actual income tax credit of Frw 90,844 thousand (2020: expense of Frw 370,191 thousand).

Deferred income tax expense is derived mainly from allowances for impairment losses of Frw 221,899 thousand (2020: Frw -237,861 thousand), tax losses carried forward of Frw 192,986 thousand (2020: Frw -154,710 thousand), other provisions of Frw 19,368 thousand (2020: Frw -2,514 thousand), other temporary differences of Frw 28,957 thousand (2020: Frw -8,994 thousand), accelerated tax depreciation of Frw -13,606 thousand (2020: Frw 10,872 thousand).

(14) Cash and cash equivalents

Cash and cash equivalents were comprised as follows:

in `000 Frw	2021	2020
Cash on hand	222,032	382,925
Balances with National Bank of Rwanda	509,256	2,206,934
Total	731,288	2,589,859

(15) Debt securities

As at 31.12.2020 the Bank held treasury bonds in the amount of Frw 364,866 thousand (2019: nil).

(16) Loans and advances to banks

in `000 Frw	2021	2020
Short-term balances with other banks (< 90 days maturity)	1,567,534	1,715,303
Cash and cash equivalents in the statement of cash flows	2,298,822	4,305,162

(17) Loans and advances to customers

Loans and advances to customers are broken down as follows:

in `000 Frw	2021	2020
Loans and advances to customers (outstanding principal)	10,113,508	11,219,843
Accrued interest on loans and advances to customers	246,968	253,056
Deferred disbursement fees	(270,758)	(281,808)
Total amount outstanding	10,089,718	11,191,091
Credit impairment losses	(1,956,747)	(2,027,975)
Total net book value	8,132,971	9,163,116

The total outstanding principal amount can be split into the following industries:

in `000 Frw	2021	2020
Trade	7,218,852	7,762,886
Services	1,374,945	2,302,844
Manufacturing	304,718	480,208
Agriculture	858,866	269,257
Transport	196,353	251,281
Staff	133,120	111,045
Consumer	26,644	42,322
Total	10,113,508	11,219,843

The development of the gross loan portfolio (excl. deferred fees) in 2021 is shown in the following table:

in `000 FRW	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount as at 01. January 2021	112,500	8,995,992	-	651,489	1,172,918	11,472,899
New assets originated	-	3,635,995	-	261,549	985,116	4,882,660
Assets derecognised or repaid (excl. write offs)	-	(3,923,614)	-	(636,171)	(791,811)	(5,351,596)
Transfers to Stage 1	10,242	-	78,292	(5,174)	(83,360)	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	(439,533)	-	-	439,533	-
Amounts written off	-	-	-	-	(643,487)	(643,487)
At 31 December 2021	122,742	8,268,840	78,292	271,693	1,618,909	10,360,476

Impairment allowance for loans and advances to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

In `000 Frw	2021					
	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
Non-restructured		7,281,677	-	114,069	338,524	7,734,270
Restructured	-	135,121	78,298	93,882	109,878	653,086
Standard	-	135,121	-	17,307	83,749	235,907
Watch	-	-	78,298	76,575	17,242	172,115
Impaired	-	-	-	-	9,157	9,195
COVID	122,742	852,042	-	63,736	1,170,507	2,209,027
TOTAL	122,742	8,268,840	78,298	271,687	1,618,909	10,360,476

The following table shows the corresponding ECL allowance:

in `000 FRW	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
ECL allowance as at 1 January 2021	4,678	392,268	-	219,364	1,411,665	2,027,975
New assets originated or purchased	-	128,547	-	143,875	-	272,423
Assets derecognised or repaid (excluding write offs)	-	(195,426)	-	(214,003)	-	(409,428)
Transfers to Stage 1	-	56,035	-	-	(56,035)	-
Transfers to Stage 2	-	(1,811)	-	75,469	(73,658)	-
Transfers to Stage 3	-	(41,113)	-	-	41,113	-
Impact on year end ECL of exposures transferred between stages during the year	(59,610)	20,309	(89,252)	11,972	688,840	572,259
Changes to models and inputs used for ECL calculations	-	53,766	-	(5,341)	88,580	137,005
Amounts written off	-	-	-	-	(643,487)	(643,487)
At 31 December 2021	(54,932)	412,576	(89,252)	231,336	1,457,018	1,956,747

Impairment allowance as at 31 December 2020

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

in `000 FRW	2020					
	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
Non Restructured	-	5,083,421	-	40,450	13,354	5,137,225
Restructured	-	48,005	-	-	-	48,005
Standard	-	48,005	-	-	-	48,005
Watch	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
COVID	112,500	3,864,566	-	611,039	1,699,564	6,287,669
Total	112,500	8,995,992	-	651,489	1,712,918	11,472,899

Impairment allowance for loans and advances to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

in `000 FRW	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
ECL allowance as at 1 January 2020	37,143	340,802	63,554	135,601	833,695	1,410,795
New assets originated or purchased	24,513	263,886	-	-	-	288,400
Assets derecognised or repaid (excluding write offs)	(22,747)	(252,371)	(31,231)	(64,186)	(243,169)	(613,704)
Transfers to Stage 1	-	8,283	-	(267)	(8,016)	-
Transfers to Stage 2	-	(21,519)	-	21,519	-	-
Transfers to Stage 3	(34,232)	(3,809)	(32,323)	(48,987)	119,351	-
Impact on year end ECL of exposures transferred between	-	(7,843)	-	157,755	815,223	965,135
Amounts written off	-	-	-	-	(406,506)	(406,506)
At 31 December 2020	4,678	392,268	-	219,364	1,411,665	2,027,975

Collateral and other credit enhancements

The principal collateral types for loans and advances of the Bank are as follows:

2021 in `000 Frw	Maximum credit exposure	Mortgage	Cash	Vehicles	Inventories	Other	Total
Loans and advances to banks and other financial	2,076,790	-	-	-	-	-	-
Debt securities	1,350,881	-	-	-	-	-	-
Loans and advances to cus-	10,669,661	1,664,767	556,153	-	938,477	7,510,264	10,669,661
Other financial assets	161,316	-	-	-	-	-	-
2020 in `000 Frw	Maximum credit exposure	Mortgage	Cash	Vehicles	Inventories	Other	Total
Loans and advances to banks and other financial institutions	1,715,303	-	-	-	-	-	-
Debt security	364,866	-	-	-	-	-	-
Loans and advances to customers	11,191,091	3,151,463	653,797	218,170	1,403,629	5,782,032	11,191,091
Other financial assets	135,839	-	-	-	-	-	-

(18) Other financial assets

Other financial assets are distributed as follows:

in `000 Frw	2021	2020
Sundry receivables	153,385	117,039
Receivables against group companies	6,617	14,164
Clearing and internal accounts	1,313	4,636
Total	161,316	135,839

(19) Other non-financial assets

Other non-financial assets are distributed as follows:

in `000 Frw	2021	2020
Prepayments / advance payments	103,222	274,575
Claims on tax authorities	142,189	99,670
Repossessed property (assets held for sale)	35,600	83,600
Inventory	1,707	1,311
Total	282,718	459,156

As at 31.12.2021 the Bank held repossessed collaterals comprised of buildings from its default borrowers with a value of Frw 35,600 thousand (2019: Frw 83,600 thousand).

(20) Intangible assets

The following table shows intangible assets held by the Bank:

in `000 Frw	2021	2020
Software	71,624	110,044
Banking license	5,727	5,727
Total	77,350	115,771

Licences, rights and other intangible assets in `000 Frw	2021	2020
Net book value, 1 January	5,727	5,727
Net book value, 31 December	5,727	5,727

The Bank assessed indefinite useful life for its banking license as the asset has no maturity, the Bank has no plans to sell or redeem the license and as it has no abrasion.

Software in `000 Frw	2021	2020
Net book value, 1 January	110,044	80,268
Additions	-	94,742
Amortization	(38,421)	(64,966)
Net book value, 31 December	71,263	110,044

(20) Property and equipment

The following table shows the composition and development of property and equipment:

in `000 Frw	2021	2020
Leasehold improvements	391,183	438,723
Furniture, fixtures and equipment	90,874	118,682
IT and computer equipment	130,922	144,648
Motor vehicles	60,076	15,039
Total	673,055	717,092

2021 in `000 Frw	Leasehold improvements	Furniture, fixtures,	Computer equipment	Motor vehicles	Total
Costs					
1 January	775,246	437,288	425,023	15,792	1,653,349
Additions	-	7,203	43,770	64,073	115,046
Disposal	(1,921)	(20,236)	(28,899)	-	(51,055)
31 December	773,326	424,256	439,894	79,865	1,717,340
Accumulated depreciation					
1 January	336,523	318,606	280,375	753	936,257
Charge for the year	49,403	35,007	55,866	19,036	156,312
Disposals	(783)	(20,233)	(27,270)	-	(48,285)
31 December	382,143	333,382	308,972	19,789	1,044,285
Net book value	391,183	90,874	130,922	60,076	673,055

The impairment loss was due to the closure of a branch and the necessary impairment of the residual book value for the activated leasehold improvements.

2020 in `000 Frw	Leasehold improvements	Furniture, fixtures,	Computer equipment	Motor vehicles	Total
Costs					
1 January	845,841	406,989	309,839	-	1,562,669
Additions	-	30,299	115,184	15,792	161,275
Disposal	(70,595)	-	-	-	(70,595)
31 December	775,246	437,288	425,023	15,792	1,653,349
Accumulated depreciation					
1 January	321,177	284,720	244,737	-	850,634
Charge for the year	49,627	33,886	35,638	753	119,904
Impairment	36,403	-	-	-	36,403
Disposals	(70,595)	-	-	-	(70,595)
Others	(89)	-	-	-	(89)
31 December	336,523	318,606	280,375	753	936,257
Net book value	438,723	118,682	144,648	15,039	717,092

(22) Right-of-use assets

The Bank leases a number of office premises for periods between 1.5-12 years, including renewal options.

In `000 Frw	2021	2020
Acquisition costs		
1 January	1,703,782	1,536,604
Additions	42,905	161,385
Modifications	(208,683)	89,336
Derecognition	(13,555)	(83,543)
31 December	1,524,839	1,703,782
Accumulated depreciation		
1 January	407,965	205,136
Additions	209,006	220,502
Derecognition	-	(17,673)
31 December	619,970	407,965
Net book value 31 December	907,869	1,295,817

(23) Deferred tax assets

The deferred tax assets are allocated as follows:

in `000 Frw	2021	2020
Tax loss carried forward	785,846	978,832
Other provisions	35,822	16,453
Allowance for loan impairment	227,374	5,476
Other temporary differences	26,835	(2,122)
Accelerated tax depreciation	(142,942)	(156,548)
Total	932,935	842,091

In 2021 the Bank recognized a total amount of Frw 785,846 thousand (2020: Frw 978,832 thousand) as deferred tax assets for unused tax losses, which are subject to the availability of future taxable profits. The recognized amount was calculated on the basis of the current three-year business plan. The deferred tax asset recognized for unused tax losses will be reviewed annually by updating the business plans. Tax losses of Frw 1,135,206 (2020: Frw 2,910,353 thousand) were not recognised.

(24) Loans from banks and other financial institutions

in `000 Frw	2021	2020
Balance as at 1 January	4,805,851	4,163,306
Interest expense	514,942	608,682
Repayments	(2,306,366)	(48,028)
Derecognition	(1,091)	-
Modification (note 10)	(1,993,914)	81,891
Total	1,019,422	4,805,851

On 31 August 2021, the Bank amended the restructuring agreement with its lenders to provide the Bank with a waiver for its covenant breaches and to modify the payment terms of the agreement which resulted in a modification gain of Frw 2,252,764 thousand (see note 10).

On 31 August 2021 the Bank concluded the restructuring with lenders whereby lenders irrevocably and unconditionally agreed to waive full interest payments from 1 July 2021 to 31 December 2021. In addition, lenders agreed on debt forgiveness in the amount of Frw 1,500,000 thousand in September 2021 and Frw 538,844 thousand in December 2021.

As a result, the Bank calculated the new debts as present value of expected repayments and existing debt balance which gives as substantial difference of Frw 2,252,764 thousand recognised as gain from restructuring in other operating income. The Bank derecognized the existing debts and recognized new debt amounting to Frw 1,019,422 thousand.

(25) Customer accounts

The customer accounts are distributed as follows:

in `000 Frw	2021	2020
Term deposit accounts	5,938,918	5,586,756
Savings accounts	1,980,409	2,002,578
Current accounts	525,296	857,851
Pending Client transfers	1,701	27,411
Accrued interest on customer accounts	200,155	186,108
Total	8,646,478	8,660,704

(26) Provisions

Provisions are distributed as follows:

in `000 Frw	2021	2020
Provision for untaken vacation	53,220	42,845
Provision for legal obligations	66,186	32,000
Total	119,406	74,845

The provision for legal obligations includes a provision for possible non-income tax exposures in the amount of Frw 20,000 thousand and a legal claim with a loan client in the amount of Frw 12,000 thousand. All provisions are expected to be settled in 2020.

The movements for 2020 are as follows:

in `000 Frw	Legal obligations	Untaken vacation
Opening balance	32,000	42,845
Amounts used	(32,000)	-
Additions	66,186	10,375
Closing balance	66,186	53,220

The movements for 2020 are as follows:

in `000 Frw	Legal obligations	Untaken vacation
Opening balance	-	37,048
Amounts used	-	(5,829)
Additions	32,000	15,247
Closing balance	32,000	46,466

(27) Other financial liabilities

Other financial liabilities are distributed as follows:

in `000 Frw	2021	2020
Accrued expenses	115,936	51,847
Clearing accounts	1,747	20,082
Social security contributions payables	12,755	13,236
Liabilities for goods and services	23,232	12,396
Total	153,670	97,561

All liabilities are due within 12 months and equal their carrying balances as the impact of discounting is not significant.

(28) Other non-financial liabilities

Other non-financial liabilities are distributed as follows:

in `000 Frw	2021	2020
Non-income tax liabilities	55,780	71,470
Grant liabilities	33,158	6,939
Total	88,938	78,409

The Bank received a grant from MasterCard Foundation for IT equipment in the amount of Frw 31,385 thousand.

(29) Subordinated debt

Subordinated debt is distributed as follows:

in `000 Frw	2021	2020
Subordinated debt others	-	247,307
Accrued interest subordinated debt others	-	-
Total	-	247,307
Balance as at 1 January	247,307	209,227
Interest expense	28,283	38,080
Repayment (Interest)	(16,740)	-
Modification (note 10)	(258,850)	-
Total	-	247,307

On 31 August 2021, the Bank amended the restructuring agreement with its lenders to provide the Bank with a waiver for its covenant breaches and to modify the payment terms of the agreement which resulted in a modification gain of Frw 2.2 billion (see note 10). The subordinated debt was wholly and exclusively waived by DGGF.

(30) Other non-financial liabilities

As at 31 December 2021 the authorized share capital is Frw 11,461,300,046 (2019: Frw 11,461,300,046) of which have been fully paid in by the shareholders of the Bank with the following shareholder structure:

Shareholder	Subscribed shares	Paid shares	Subscribed and paid shares	% total	% total
	2021	2021	2020	2021	2020
Access Microfinance Holding AG	75,690,363	75,690,363	75,690,363	67.88%	67.88%
International Finance Corporation	16,731,963	16,731,963	15,261,375	15.01%	15.01%
Kreditanstalt für Wiederaufbau	19,081,629	19,081,629	19,081,629	17.11%	17.11%
Total	111,503,955	111,503,955	110,033,367	100%	100%

The subscribed and unpaid shares of 1,470,588 are for IFC. The shares are not grouped into classes, and there are no different rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital. However, shares were bought at different par value as follows: 5,000,000 shares at Frw 1,000, 5,242,863 shares at Frw 381.47, 4,672,857 shares at Frw 210, 86,000,000 shares at Frw 30 and 10,588,236 shares at Frw 85.

Number of shares	2021	2020
Opening 1. January	110,033,367	110,033,367
Addition capital increase in cash	1,470,588	-
31. December	111,503,955	110,033,367

(31) Net result according to financial categories

2021 in `000 Frw	Interest	Subsequent measurement		Total
		Fair value	Impairment	
Loans and advances to customers	4,084,181	-	(571,456)	3,512,725
Cash and cash equivalents, loans and advances to banks	262,941	-	-	262,941
Debt securities	59,689	-	-	59,689
Loans from borrowings	(524,688)	-	-	(524,688)
Customer accounts	(574,396)	-	-	(574,396)
Lease liabilities	(142,644)	-	-	(142,644)
Subordinated debt	(28,283)	-	-	(28,283)
	3,136,800	-	(571,456)	2,565,344

2020 in `000 Frw	Interest	Subsequent measurement		Total
		Fair value	Impairment	
Loans and advances to customers	3,677,400	-	(925,234)	2,752,166
Cash and cash equivalents, loans and advances to banks	343,769	-	-	343,769
Loans from banks and other financial institutions	(614,492)	-	-	(614,492)
Customer accounts	(695,938)	-	-	(695,938)
Lease Liabilities	(132,841)	-	-	(132,841)
Subordinated debt	(38,080)	-	-	(38,080)
	2,569,395	-	(925,234)	1,644,161

(32) Financial instruments

Carrying amounts as at 31 December 2021 and 31 December 2019

Classes of financial assets	Category	Carrying amount 31.12.2021 in `000 Frw	Carrying amount 31.12.2020 in `000 Frw
Cash and cash equivalents	Amortised cost	731,287	2,589,859
Debt securities	Amortised cost	1,350,881	364,866
Loans and advances to banks	Amortised cost	1,567,534	1,715,303
Loans and advances to customers	Amortised cost	8,132,944	9,163,116
Other financial assets	Amortised cost	456,938	135,839
Classes of financial liabilities			
Loans from banks and other financial institutions	Amortised cost	1,019,422	4,805,851
Customer accounts	Amortised cost	8,644,777	8,660,704
Lease liabilities	Amortised cost	951,219	1,288,744
Other financial liabilities	Amortised cost	175,251	97,561
Subordinated debt	Amortised cost	-	247,307

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The fair values for loans and advances to customers have been determined according to level 3 of the fair value hierarchy. The fair values for all other financial instruments have been determined using level 2 of the fair value hierarchy.

To determine the fair value for any financial assets or liabilities the following guidelines are applied within the Bank. There are different key indicators to determine the fair value. One is the remaining maturity, if it is less than six months the fair value equals the balance sheet amount. The fair value remains the balance sheet amount too, if the remaining maturity is more than six month and has still the same effective interest rate for newly disbursed loans at measurement date, as it can be assumed to be a market rate. The interest rate is another indicator and if the interest rate is variable the fair value is equal to the balance sheet amount. A different effective interest rate at measurement date would lead to application of discounted cash flow method in order to determine the fair value.

The fair value calculations have been determined using a discounted cash flow method. The valuation techniques use observable current market transactions and market rates for similar market transactions.

The Bank considers that the carrying amounts of all classes of financial assets and financial liabilities carried at amortized cost approximate their fair values, while short-term treasury bills, financial assets available-for-sale and financial assets and liabilities at fair value through profit or loss are carried at fair value in the financial statements.

There were no transfers between the different levels in 2021 and 2020.

(33) Financial instruments:

As at year-end there were no transactions with netting arrangements outstanding, which had not been offset in the statement of financial position.

(34) Contingent liabilities

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

As at 31 December 2021, the Bank was party to legal proceedings for a total amount of Frw 62,500 thousand (2020: Frw 57,000) against the Bank for which a provision of Frw 31,250 thousand were made based on the Bank estimation of a 50% probable future cash outflow.

(34) Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- ◇ To comply with the capital requirements set by the regulators of the banking markets where the Bank operates; and
- ◇ To maintain a strong capital base to support the development of its business

Capital adequacy will be monitored on a minimum monthly basis. As a recommendation the Bank aims at a capital adequacy ratio of 15% relating to the ratio of risk-weighted assets to total capital. Total capital comprises of share capital, retained earnings and subordinated debt. The book value of intangible assets and deferred income tax assets are generally deducted in arriving at total capital. The capital adequacy requirements for the Bank were met in 2021 and 2020.

The Bank's regulatory capital position at 31 December 2021 was as follows:

Description	2021 Frw'000	2020 Frw'000
Core Capital (Tier 1):		
Ordinary share capital	11,336,300	11,336,300
Retained earnings and reserves	(7,609,612)	(9,190,811)
Less intangible assets	(77,350)	(115,772)
Less deferred income tax asset	(932,935)	(842,091)
Total	2,841,403	1,187,626
Additional Tier 2 Capital (Tier 2):	111,788	336,132
Total qualifying capital	2,953,191	1,523,758
Risk weighted assets	8,943,063	11,062,864
Capital Ratios:		
Total capital expressed as a percentage of total risk-weighted assets	33.02%	13.77%
Minimum capital required %	15%	15%

(36) Risk Management

Management of individual risks

Credit Risk

Credit risk is the risk that the party to a credit transaction will be unable to meet its contractually agreed obligations towards the Bank. In the Bank's case, credit risk arises mainly from customer credit exposures and to a lesser extent from interbank or other short-term placements. As more than 92% of the Bank's lending is to micro, small and medium-sized businesses this section concentrates on business lending.

The economy where the Bank operates in is characterised by a relatively high degree of informal transactions. Moreover, the Bank's typical borrowers (especially in the micro loan segment) often do not possess significant assets that could be pledged as collateral. Having operated for almost 7 years in Rwanda the Bank has developed an approach to lending under these conditions that has allowed the Bank to preserve a good portfolio quality despite COVID-19 restrictions that have affected Business sector in the country.

The core principle of this technology is that credit decisions are primarily based on a thorough analysis of the borrowers' credit worthiness, i.e., the capacity and willingness of the credit applicant to pay. The debt capacity is reflected in a cash flow projection of the last 12 months, forming the basis for the decision on the loan conditions and the payment plan, which in almost all cases is an instalment loan with monthly payments of interest and principal. By conducting an in-depth analysis of the borrower's financial status, the Bank avoids overburdening its customers and thus control the danger of over indebtedness. In addition to the financial analysis, other indicators for his/her willingness to pay are assessed, including credit history, credit reference checks, statements of guarantors, suppliers, neighbours or employers through cross-check from local leader's/market leaders and neighbours. Bank has a centralised credit decision taking unit in order to avoid conflict of interest from branches (target achievement vs risk mitigation)

One common feature in Rwanda is that official information concerning the economic situation of the micro and small borrowers is incomplete and often not reliable. In order to mitigate this risk, the Bank's loan officers' collect and cross-check relevant primary data, in particular through visits in the applicant's enterprise

(s) and household. The economic situation of the applicants' household and other related parties is included in the credit analysis.

As loans are primarily backed by information instead of collateral, credit risk (as well as operational cost) crucially depends on the efficiency of gathering and processing information. To prevent any loss of information, a high degree of responsibility is assigned to the loan officer as opposed to the delegating of work commonly seen in the traditional bank business. In microfinance this includes all aspects from screening to contract enforcement. Loan officers receive a performance-based salary that includes rewards for productivity and portfolio quality.

All loans have to be approved by a committee comprised of at least two responsible managers (four-eye principle). Various competency levels are established depending on the loan size and the individual experience of the manager.

The Bank intends to build up a long-term client relationship with the borrower, which is based on mutual respect and trust, and implies the promise of access to follow-up loans with better terms and conditions if the client repays the loan without delay. The long-run client relationship creates incentives for repayment and full disclosure of relevant information. At the same time, the Bank continuously increases its knowledge on the borrower, which reduces the Bank operational costs over time. In consequence loan conditions and access to loans is differentiated according to the clients' records which reflect their individual risk profile (graduation principle) where client can even get an automatic loan depending on the payment history with bank.

The use of the loan and its repayment are closely monitored by regular visits to the client and immediate action if the client falls into arrears. This is supported by a strong MIS system and a culture of strict adherence to procedures and rules.

While the principles outlined above are relevant to all of the Bank's business lending, the Bank applies them in a differentiated way for the segments of micro and Super Micro business lending. While in micro lending the Bank puts a strong focus on standardisation and efficiency, in the Super Micro / SME segment loan analysis goes deeper and contains more elements of prospective analysis. Furthermore, traditional collateral plays a much larger role in our Super Micro/ SME lending.

Business officers, middle managers, Recovery Officers and head offices have access to online information about any loans in arrears, and are prepared to take immediate action. If a Business officer or individual branch is not able to cope with specific cases, or a general deterioration of the loan portfolio, they are supported by specialised recovery units, credit management and the Bank's legal department.

Based on the Bank's experience, the level of credit risk is measured mainly in the Portfolio at Risk (meaning the total outstanding exposure to parties that are in arrears with any part of their obligations) 1 and 30 days. Overall PAR 30 for the Bank was 17.9% as of 31 December 2021 (20.69% in 2020). Write-offs during the year totalled Frw 643,487 thousand or 3.6% of the total portfolio (Frw 406,506 thousand in 2020).

The following table shows the current quality of the loan portfolio. The risk coverage ratio puts loan loss provisions in relation to the PAR 30 portfolio.

As of 31 December 2021, the quality of the loan portfolio is as follows:

Outstanding Portfolio		PAR>30		PAR>90		Risk Coverage Ratio
`000 Frw	`000 Frw	%	`000 Frw	%	%	
10,113,508	1,810,037	17.9%	1,615,264	15.97%	81.93%	

As of 31 December 2020, the quality of the loan portfolio is as follows:

Outstanding Portfolio	PAR>30		PAR>90		Risk Coverage Ratio
	`000 Frw	%	`000 Frw	%	%
11,219,843	2,321,568	20.69%	1,712,918	15.27%	87%

Portfolio concentration

Portfolio concentration arises when the Bank has significant credit exposures focussed in limited number of counterparties. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

Following table shows the amount of the loan portfolio concentrated on the 10 largest client exposures as follows:

	2021	2020
Outstanding Portfolio	10,113,508	11,219,843
10 largest client exposures	490,442	685,076
Percentage (%)	4.8%	6%

The maximum exposure to credit risk for loans and advances to customers at the end of the reporting period equal the total amount outstanding in note 17. The total amount of collateral held as security for loans and advances to customers was split as follows:

	2021	2020
Real estate	1,664,767	3,151,463
Vehicles	-	218,170
Cash collateral	556,153	635,797
Others	8,448,741	7,185,661
Total	10,669,661	11,191,091

The Bank additionally held substantive amounts of inventory, guarantees and equipment as collateral. The fair values of these items cannot be reliably measured. Non-business loans consist of retail loans (including a growing share of housing loans) and staff loans and together make up less than 2% of the total portfolio. In retail lending, we apply very conservative standards to avoid over indebtedness and resulting high risk levels.

Credit quality based on default rates

The following table shows the maximum credit risk and the impairment of Gross Loan Portfolio (excluding deferred disbursement fees):

Loans to customers	Total gross carrying value	Stage 1	Stage 2	Stage 3
Not overdue	8,257,012	8,257,012	-	-
1 to 30 days overdue	130,969	130,969	-	-
31 to 90 days overdue	114,069	-	114,069	-
Restructured loans overdue less than 90 days	243,161	148,623	94,538	-
Loans overdue more than 90 days; defaulted loans	338,524	-	-	338,524
Restructured loans overdue more than 90 days	1,276,740	-	-	1,276,640
Total loans to customers	10,360,475	8,536,604	208,607	1,615,264

In 2020 the maximum credit risk and the impairment of Gross Loan Portfolio (excluding deferred disbursement fees) was as follows:

Loans to customers	Total gross carrying value	Stage 1	Stage 2	Stage 3
Not overdue	8,333,489	8,333,489	-	-
1 to 30 days overdue	89,389	89,389	-	-
31 to 90 days overdue	49,719	-	49,719	-
Restructured loans overdue less than 90 days	1,287,384	685,614	601,770	-
Loans overdue more than 90 days; defaulted loans	1,046,286	-	-	1,046,286
Restructured loans overdue more than 90 days	-	-	-	-
Total loans to customers	11,472,899	9,108,492	651,489	1,712,918

The maximum credit risk for other financial assets is reflected in their balance sheet values. Note (2.3) provides an explanation of the ECL model applied by the Bank. The following table shows key forward-looking economic variables/assumptions used for the ECL calculations.

31 December 2021	Upside	Base	Downside
Staff turnover in %	10%	7%	20%
FX-rate against USD in %	20%	3.3%	7%
GDP Growth (annual %)	20%	7%	0%
Copper price	20%	2%	-10%
COVID recovery	Good markets, liquidity normal	Partial market & liquidity recovery	Limited markets & liquidity recovery
Government intervention	Good stimulus, good liquidity boosting measures	Stimulus as expected, normal liquidity boosting measures	Limited stimulus, limited liquidity boosting measures

In 2020 the Bank applied more simplified forward-looking variables:

31 December 2020	
Staff turnover in %	23.30%
FX-rate in %	2.3%
GDP Growth (annual %)	10.1%
Copper price	-2.30%

Currency risk

Currency risk in the narrow sense arises when assets and liabilities of the Bank are denominated in more than one currency and the assets and liabilities in one currency do not match in amount and maturity (open foreign currency positions, OCP). In Rwanda, foreign currencies play an important role in the economy. A significant share of customer deposits is held in USD, and international medium-long term refinancing is often available only in these currencies. Therefore, no material impact from depreciation in the country.

The Bank manages its OCP on a daily basis and does not allow any violation of externally and internally set limits, which are in the range of 5-20% of the core capital per currency. No OCP are being held for speculative purposes.

No liabilities of the Bank in foreign currency are hedged.

The following table shows the currency distribution in the Bank in Frw equivalent. Financial assets /liabilities are split according to their currencies.

Financial assets 2021 (in `000 Frw)	Local currency	USD	EUR	Total
Cash and cash equivalents	682,865	48,183	240	731,288
Debt securities	1,363,785	-	-	1,363,785
Loans and advances to banks	1,527,834	39,348	352	1,567,534
Loans and advances to customers	8,132,971	-	-	8,132,971
Other financial assets	403,954	60,080	-	464,034
Total financial assets	12,111,444	147,611	592	12,259,647
Loans from banks and other financial institutions	1,019,422	-	-	1,019,422
Customer accounts	8,591,661	53,116	-	8,644,777
Other financial liabilities	181,440	-	-	181,440
Provisions	84,470	-	-	84,470
Lease liabilities	951,041	-	-	951,041
Subordinated debt	-	-	-	-
Total financial liabilities	10,828,034	53,116	-	10,881,150
Open currency position	1,283,410	94,495	592	1,378,497
Financial assets 2020 (in `000 Frw)	Local currency	USD	EUR	Total
Cash and cash equivalents	2,435,070	153,551	1,238	2,589,859
Loans and advances to banks	364,866	-	-	364,866
Loans and advances to customers	9,163,116	-	-	9,163,116
Other financial assets	87,467	35,898	12,474	135,839
Total financial assets	13,693,005	256,820	19,158	13,968,983
Loans from banks and other financial institutions	4,805,851	-	-	4,805,851
Customer accounts	8,224,297	436,407	-	8,660,704
Other financial liabilities	97,561	-	-	97,561
Provisions	74,845	-	-	74,845
Lease liabilities	1,288,744	-	-	1,288,744
Subordinate debt	247,307	-	-	247,307
Total financial liabilities	14,738,605	436,407	-	15,175,012
Open currency position	(1,045,600)	(179,587)	19,518	(1,206,029)

The Bank did not have outstanding forward contracts as at 31 December 2021 (2019: nil)

An Frw depreciation against USD of 3.8% would result in a pre-tax net loss from currency revaluations of Frw 60,392 thousand (2020: loss of Frw 6,286 thousand). An Frw appreciation against EUR of 4.4% would result to a pre-tax net gain from currency revaluations of Frw 69,418 thousand (2020: Frw 2,682 thousand).

Liquidity risk

Liquidity risk in the strict sense of the word is the danger that a bank will no longer be able to meet its payment obligations in full, or in a timely manner. In a wider sense, it is the danger that additional funding can no longer be obtained, or can only be obtained at significantly increased costs.

The Bank concentrates on lending to micro, small and medium sized enterprises as well as individuals – the portfolio of such loans makes up 44% (2020: 53%) of total assets. The portfolio is highly diversified to a large number of customers, and almost exclusively consists of instalment loans with monthly annuity repayments of interest and principal.

The main sources of refinancing are customer deposits 58% (2020: 50%); borrowings from financial institutions 7% (2020: 29%) of total assets and equity of 26% (2020: 12%). Borrowings are predominantly medium-long term and from specialised microfinance investment vehicles.

As a result, the Bank has a structurally positive liquidity mismatch and a strong liquidity position. In the event of a liquidity shortage, the Bank could react by reducing the speed of growth of the loan portfolio, which would lead to opportunity costs but not immediately increase funding cost. In view of these factors, the Bank uses a relatively simple liquidity management system that is based on a rolling forecast of cash flows as well as regular maturity mismatch analysis. The Bank applies a number of externally and internally set liquidity indicators and is usually well within the established limits.

Liquidity management is under the responsibility of an Asset and Liability Committee (ALCO) which is under Risk Committee that is composed of members of the management team and other key managers. Additional oversight and control are provided by the Bank's Board of Directors as well as the AccessHolding head office in Berlin. Throughout the reporting period, the Bank had adequate liquidity available at all times to meet all financial obligations in a timely manner.

The Bank maintains a high level of cash and cash equivalents that can be easily liquidated in the event of an unforeseen interruption in cash flow. The liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Liquid assets consist of balances with the Central Bank and loans and advances to banks with maturity below than 90 days. The Bank believes it is important to use current accounts and savings accounts as sources of funds to finance lending to customers.

They are monitored using the liquid assets to deposit ratio. The liquidity ratios as at year-end were, as follows:

	2021	2020
Liquid Assets / Total Assets	15.49%	24.76%
Liquid Assets / Deposits < 90 days	91.74%	91.12%

Additionally, the Bank monitors deposit concentration on single counterparties. The following table shows the amount of the deposit portfolio concentrated in the 10 largest client exposures.

In `000 Frw	2021	2020
Total deposits	8,644,777	8,660,704
10 largest client exposures	3,954,000	3,704,086
Percentage (%)	46%	43%

As of 31 December 2021, the maturity schedule is as follows:

in `000 Frw	< 1 month	1 – 3 months	3 – 12 months	12 months to 2 years	2 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	731,289	-	-	-	-	-	731,289
Debt securities	-	-	-	-	1,363,785	-	1,363,785
Loans and advances to banks	1,567,534	-	-	-	-	-	1,567,534
Loans and advances to customers	1,314,277	1,115,229	4,834,007	2,360,402	629,764	106,796	10,360,475
Other financial assets	144,784	-	-	-	-	-	144,784
Total financial assets	3,757,884	1,115,229	4,834,007	2,360,402	1,993,549	106,796	14,167,867
Liabilities							
Loans from banks and other financial institutions	-	-	1,019,422	-	-	-	1,019,422
Customer accounts	2,520,251	625,434	5,385,678	97,328	17,785	-	8,646,476
Other financial liabilities	143,400	-	-	-	-	-	143,400
Lease liabilities	12,156	11,664	277,925	271,828	559,998	514,697	1,648,268
Subordinate debt	228,436	11,352	304,801	-	410,574	-	955,163
Total financial liabilities	2,892,087	636,786	5,690,479	97,328	428,359	-	10,764,461
Net liquidity gap	865,797	478,443	(856,472)	2,263,074	1,565,190	106,796	3,403,406
Cumulated liquidity gap	865,797	1,344,240	(378,029)	1,406,602	3,828,264	1,671,986	-

As of 31 December 2020, the maturity schedule was as follows:

in `000 Frw	< 1 month	1 - 3 months	3 - 12 months	12 months to 2 years	2 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	2,589,859	-	-	-	-	-	2,589,859
Debt securities	-	-	-	-	447,797	-	447,797
Loans and advances to banks	1,715,303	-	-	-	-	-	1,715,303
Loans and advances to customers	358,667	600,367	5,834,220	3,785,104	1,686,364	137,592	12,402,314
Other financial assets	135,839	-	-	-	-	-	135,839
Total financial assets	4,799,668	600,367	5,834,220	3,785,104	2,134,161	137,592	17,291,112
Liabilities							
Loans from banks and other financial institutions	-	39,886	1,704,638	2,077,720	2,295,426	-	6,117,670
Customer accounts	3,396,195	1,334,989	4,088,118	212,105	18,222	-	9,049,629
Other financial liabilities	97,561	-	-	-	-	-	97,561
Provisions	-	-	74,845	-	-	-	74,845
Lease Liabilities	12,156	11,664	277,925	271,828	559,998	514,697	1,648,268
Subordinate debt	-	-	37,418	44,926	339,471	-	421,815
Total financial liabilities	3,505,912	1,386,539	6,182,944	2,606,579	3,213,117	514,697	17,409,788
Net liquidity gap	1,293,756	(786,172)	(348,724)	1,178,525	(1,078,956)	(377,105)	(118,676)
Cumulated liquidity gap	1,293,756	507,584	158,860	1,337,385	258,429	(118,676)	-

The table above analyses assets and liabilities of the Bank into relevant maturity brackets based on the remaining contractual maturity at balance sheet date. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for the Bank ever to be completely matched since business transacted is often of uncertain term. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Interest rate risk is the danger that our interest margin will be (negatively) influenced by a change in market interest rates because of a mismatch in the maturity (period of fixed interest rates) between assets and liabilities. The Bank extends loans with fixed interest rates and their maturities are usually different from that of customer deposits (shorter maturities) and borrowings (longer maturities). Therefore, the Bank does incur an interest rate risk. However, given the imperfect nature of the financial markets in the country, it is uncertain to which extent changes in international or domestic interest rate levels will impact the interest rate level of our customer loans. The Bank's Risk Management Committee (RMC) monitors interest rate risk at least on a quarterly basis.

As of 31 December 2021, the maturity schedule is as follows:

in `000 Frw	Non-interest bearing	< 1 m	1 - 3 m	3 - 12 m	12 m to 2 years	2 - 5 years	Over 5 years	Total
Assets								
Cash and cash equivalents	731,288	-	-	-	-	-	-	731,288
Debt securities	45,081	-	-	-	-	1,318,704	-	1,363,785
Loans and advances to banks	34,463	1,533,071	-	-	-	-	-	1,567,534
Loans and advances to customers	(23,790)	1,310,118	1,101,870	4,658,198	2,314,494	622,190	106,637	10,089,717
Other financial assets	144,784	-	-	-	-	-	-	144,784
Total financial assets	931,826	2,843,189	1,101,870	4,658,198	2,314,494	1,940,894	106,637	13,897,108
Liabilities								
Loans from banks and other financial institutions	-	-	-	1,019,422	-	-	-	1,019,422
Customer accounts	727,152	1,992,778	599,446	5,212,342	97,031	17,730	-	8,646,478
Other financial liabilities	143,400	-	-	-	-	-	-	143,400
Provisions	119,406	-	-	-	-	-	-	119,406
Lease liabilities	-	228,436	11,352	300,857	-	410,574	-	951,219
Subordinate debt	-	-	-	-	-	-	-	-
Total financial liabilities	989,958	2,221,214	610,978	5,513,199	97,031	428,304	-	10,879,925
Net repricing gap	(58,132)	621,975	491,072	(855,001)	2,217,463	1,512,590	106,637	3,017,182

The Bank considers interest rate risk as immaterial. The Bank considers the difference in modified duration as immaterial due to the short-term nature of its assets and a similar average duration on its liability side. Additionally, the Bank considers the correlation of interest rate levels of interest-bearing assets and interest-bearing liabilities as low. An interest rate shock of +2% (Basle shock) across all interest-bearing assets and liabilities would result in a net earnings loss of Frw 79,925 thousand (2019: Frw 37,766 thousand). As of 31 December 2020, the maturity schedule was as follows:

in `000 Frw	Non-interest bearing	< 1 m	1 - 3 m	3 - 12 m	12 m to 2 years	2 - 5 years	Over 5 years	Total
Assets								
Cash and cash equivalents	2,589,859	-	-	-	-	-	-	2,589,859
Debt securities	10,123	-	-	-	-	-	-	10,126
Loans and advances to banks	81,144	1,634,159	-	-	-	-	-	1,715,303
Loans and advances to customers	(28,752)	74,894	337,638	4,682,504	2,775,431	1,208,729	112,672	9,163,116
Other financial assets	135,839	-	-	-	-	-	-	135,839
Total financial assets	2,788,213	1,709,053	337,638	4,682,504	2,775,431	1,563,472	112,672	13,968,983
Liabilities								
Loans from banks and other financial institutions	-	-	-	1,200,000	1,600,000	2,005,851	-	4,805,851
Customer accounts	1,071,370	2,361,207	1,292,051	3,733,735	184,119	18,222	-	8,600,704
Other financial liabilities	97,561	-	-	-	-	-	-	97,561
Provisions	74,845	-	-	-	-	-	-	74,845
Lease liabilities	-	494,122	(12,834)	(23,854)	148,153	308,849	374,308	1,288,744
Subordinate debt	-	-	-	-	-	247,307	-	247,307
Total financial liabilities	1,243,776	2,855,329	1,279,217	4,909,881	1,932,272	2,580,229	-	15,175,012
Net repricing gap	1,544,437	(1,146,276)	(941,579)	(227,377)	843,159	(1,016,757)	(261,636)	(1,206,029)

Compliance risks

Compliance risks in the Bank arise from national standards as well as international conventions.

Anti-money laundering and anti-terrorist financing procedures are an important focus area. The Bank has adopted detailed procedures for managing both issues, which are centred on a strict KYC (Know Your Client) policy and which serve to protect the customers and the laws. The procedures have been prepared in accordance with FATF (Financial Action Task Force) and other international recommendations.

These and other compliance risks are managed by the relevant departments of the Bank, including the finance, operations and legal department.

Organisation of the risk management function

Overall responsibility for risk management lies with the executive management of the Bank, which reports to the Board Risk Committee and Audit Committee. Specific risks are monitored by special committees on management level (and in some cases Board of Directors' level) – this includes, Risk Committee, Credit Committee, Remuneration Committee and IT Committee. These committees meet on a regular basis and record their findings and decisions.

Regular meetings and training events support the exchange of best practices and the development and enhancement of the risk management function.

Internal Audit

Having an independent Internal Audit Function (IAF) is a vital part of the corporate governance framework of the Bank. In order to provide for its independence, the IAF reports functionally to the Audit Committee as a sub-committee of the Board of Directors and administratively to the Chief Executive Officer (CEO) of the Bank.

The IAF operates independently in carrying out its duties and is free to initiate any investigation at any time as and when deemed appropriate. The activities of the IAF are governed by a charter that clearly outlines its role, responsibilities and scope of work and guarantees the standing and authority of the Internal Audit Function within the Bank.

In order to maintain its objectivity, the IAF is not involved in any day-to-day banking operations and control procedures. Instead, each business unit is responsible for its own internal control activities and for monitoring effectiveness and efficiency of its operations.

The IAF uses a risk-based approach both in determining its annual audit plan as well as in identifying audit priorities for individual audit assignments. In carrying out its duties, the IAF is guided by the International Standards for the Professional Practice of Internal Auditing, which are issued by the Institute of Internal Auditors – the global standard setter for internal audit.

The scope of work of the IAF is to determine whether the system of risk management, internal control and governance processes, as designed and implemented by the management, is adequate and functioning properly in the Bank. This mainly covers:

- ◆ Reviewing the functionality, effectiveness and adequacy of the risk management activities of the Bank,
- ◆ Reviewing the major systems of internal control in all areas of the Bank and assessing its adequacy, effectiveness and efficiency,
- ◆ Reviewing the procedures established by the management to determine and ensure compliance with all plans, policies, procedures, laws and regulations that could have a significant impact on objectives, operations and reports/financial information.

Therefore, the IAF is authorized to have unrestricted access to all functions, records, property and personnel needed to carry out its duties.

Internal audit functions of the Bank continued with further development and improvement of audit practic-

es by emphasizing risk and process-based audit methodologies. For the year 2021, 12 regular audit assignments were planned and approved by the Board of Director. All the planned audit assignments have been completed throughout the year. In addition to that 7 special audit assignments have been completed. By the end of 2021, the Bank had in total 5 staff members within Internal Audit (2020: 4)

Events after the reporting period

The Bank assessed the events after reporting period and confirm that there were non- adjusting events to the statement of financial position.

Related-party transactions

The following table provides the total amount of transactions and balances that have been entered into with related parties for the relevant financial year:

In '000 Frw	Access Microfinance Holding AG		AB Microfinance Nigeria	
	2021	2020	2021	2020
Consultancy service	-	-	10,270	3,018
Royalty service	-	-	-	-
Amounts due from related parties	16,532	14,165	-	-
Amounts due to related parties	-	-	-	-

Access Microfinance Holding AG

As at 31 August 2021 the Bank finalized a restructuring agreement with its existing lenders and its parent AccessHolding. Besides the waiver of substantial parts of the outstanding debt, AccessHolding irrevocably and unconditionally waived any fee or payment which is or has become due to it under the AH Group Services Contract; and any future fee or payment which arises under the AH Group Services Contract in respect of the period up to and including 31 December 2022.

In addition, AccessHolding irrevocably and unconditionally waived any fee or payment which is or has become due to it under the AH Software License Agreement; and any future fee or payment which arises under the AH Software License Agreement in respect of the period up to and including 31 December 2022.

AccessHolding also acts as counterparty to the MasterCard Foundation, which provides grants to the Bank. The receivable to AccessHolding therefore represents a reimbursement for expenditures covered in the grant agreement.

AB Microfinance Bank Nigeria

AB Microfinance Bank Nigeria is a sister entity under joint ownership of Access Microfinance Holding AG, which provides IT audit services to the Bank.

Compensation of key management personnel of the Bank

In '000 Frw	2021	2020
Employee benefits	504,326	394,565
Employer contribution to pension funds (RSSB)	25,099	19,197
Total	529,425	413,762

No loans have been disbursed to members of the Board of Directors or of management team. Members of the Board of Directors received sitting allowances of Frw 25,039 thousand in 2020 (2019: Frw 23,359 thousand).

(39) Lease liabilities

In '000 Frw	2021	2020
At 1 January	1,288,744	1,294,415
Additions	41,931	161,385
Modifications	-	89,336
Derecognition	(363,517)	(69,923)
Finance cost	142,644	132,840
Lease payments	(158,583)	(319,309)
At 31 December	951,219	1,288,744

Amount recognized in the statement of profit or loss and other comprehensive income:
Interest expenses: 142,644

Amount recognised in the statement of cash flows:
Interest expenses: 142,644
Lease payment: 158,583

Other Disclosures

Item	Amount / ratio/number
A. Capital strength	
a. Core capital (Tier 1)	2,841,403
b. Supplementary capital (Tier 2)	111,788
c. Total capital	2,953,191
d. Total risk weighted assets	8,943,063
e. Core capital /Total risk weighted assets (Tier 1)	31.77%
f. Tier 2 ratio	1.25%
g. Total capital /Total risk weighted assets	33.02%
h. Leverage ratio	18%
II. Credit Risk	
1. Total gross credit risk exposures: after accounting offsets and without taking into account credit risk mitigation	10,113,508
2. Average gross credit exposure, broken down by major types of credit exposure	10,113,508
Micro	9,235,924
SME	717,819
Other Loans	159,765
a) Loans, commitments and other non-derivative off-balance sheet exposure	-
b) Debt securities	1,363,785
c) OTC derivatives	-

3. Regional or geographic distribution of exposures, broken down in significant areas by major types of credit exposures

	CITY OF KIGALI	NORTHERN PROVINCE	EASTERN PROVINCE	WESTERN PROVINCE	SOUTHERN PROVINCE	TOTAL
Micro loans	5,462,010	943,411	1,166,520	408,246	1,255,737	9,235,924
SME loans	717,819	-	-	-	-	717,819
Other Loans	159,681	-	84	-	-	159,765
	6,339,510	943,411	1,166,604	408,246	1,255,737	10,113,508

4. Sector distribution of exposures, broken down by Major types of credit exposure and aggregated in the following areas

	Micro loans	SME loans	Other loans	Total
a) Public	-	-	-	-
b) Financial	-	-	-	-
c) Manufacturing	212,082	92,635	-	304,717
d) Infrastructure and construction	497,342	63,647	75,574	636,563
e) Service and commerce	7,176,330	502,731	81,802	7,760,862
f) Others	1,350,170	58,806	2,389	1,411,365
	9,235,924	717,819	159,765	10,113,508

5. Off-balance sheet items

6. Non- performing loans indicators

a) Non-performing Loans (NPL)	1,615,264
b) NPL Ratio	15.97%

7. Related Parties

a) Loans to directors, shareholders and subsidiaries	-
b) Loans to employees	154,748

8. Restructured loans as at 31.12.2021

a. No. of borrowers	1,396
b. Amount outstanding (Frw '000)	2,596,401
c. Provision thereon (Frw '000) (regulatory):	956,146
d. Restructured loans as % of gross loans	25.67%

C. Liquidity risk

High Quality liquid assets	2,081,946
Total net cash outflows	2,550,728
a) Liquidity Coverage Ratio (LCR)	365%
Available stable funding	14,843,545
Required stable funding	7,797,286
b) Net Stable Funding Ratio (NSFR)	141%

D. Operational Risk

Number and Types of Frauds and their corresponding amount

Type	Number	Amount
-	-	-

E. Market Risk

a. Interest rate risk	-
b. Equity position risk	-
c. Foreign exchange risk	82,359

F. Country Risk

a. Credit exposures abroad	-
b. Other assets held abroad	60,081
c. Liabilities to abroad	1,019,422

G. Management and Board composition

a. Number of Board members	4
b. Number of independent directors	2
c. Number of non-independent directors	2
d. Number of female directors	1
e. Number of male directors	3
f. Number of senior managers	4
g. Number of female senior managers	0
h. Number of male senior managers	4

