



INTEGRATED REPORT

YEAR ENDED 31 DECEMBER 2020



URWEGO BANK PLC

P.O.BOX 748 Kigali-Rwanda

Address: KG 5, Rukiri cell, Remera Sector, Gasabo District

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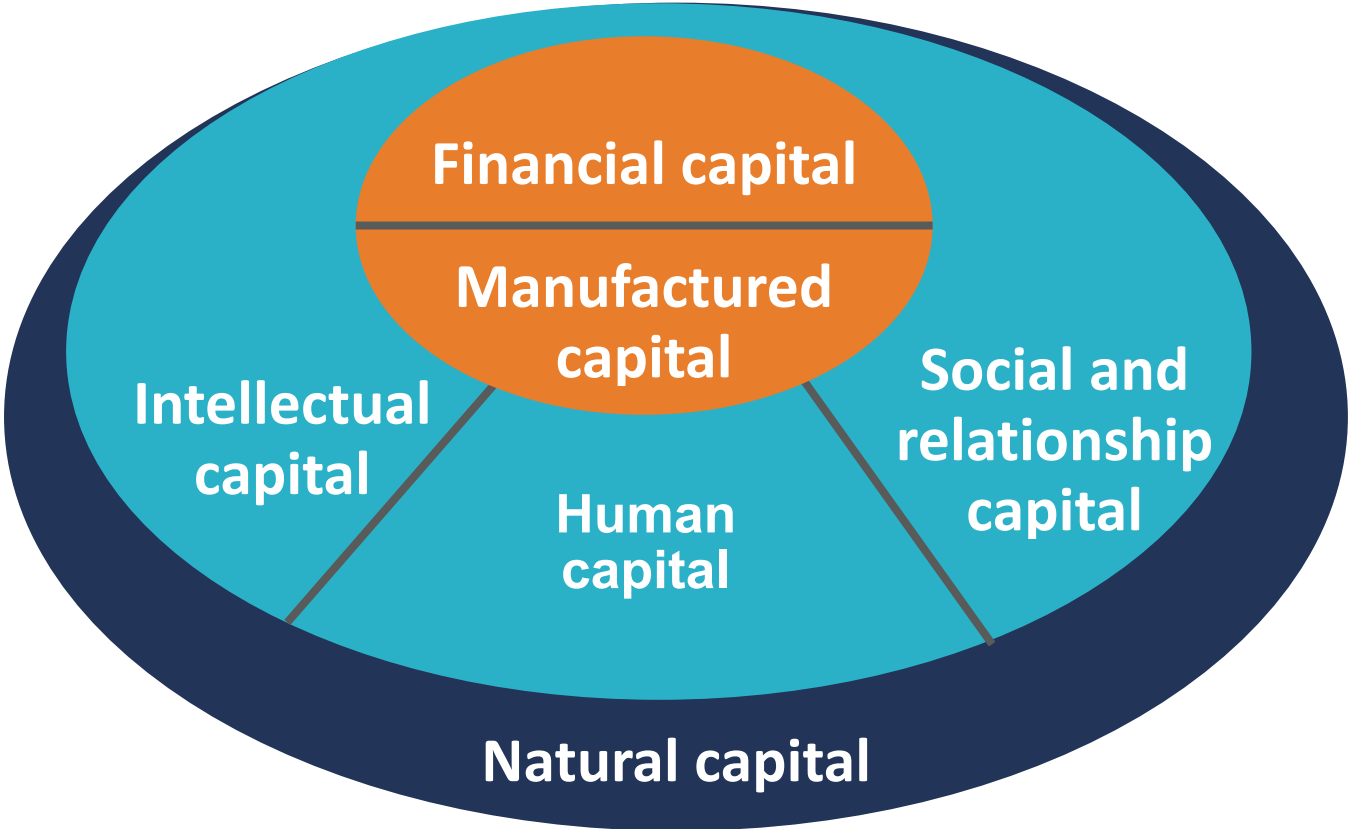
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About Our Integrated Report

We report on the progress we have made in the period from 1 January 2020 to 31 December 2020 to achieve the objectives related to Urwego Bank PLC strategic focus areas. We evaluate our financial and non-financial performance against the outcomes associated with our strategic value drivers. The scope of the information presented assesses the opportunities, risks and impacts influencing our ability to create sustainable value as we move towards realizing our short, medium and long term vision while delivering our purpose. From our perspective, as a bank built on Christian values, every one of our customers is considered a brother or sister irrespective of their religious beliefs or any other factor. This principle which is taught to staff and demonstrated in all our activities has a major influence in the banking services that we provide. Throughout the report we use the concept of six capitals as required by Integrated Reporting framework.

The six capitals as defined in the International Framework are incorporated in our strategic value drivers, which guide us in creating value for our stakeholders.



Board Chairman's Statement



At the present time, when the impact from COVID-19 on the economy and changes to lifestyles are key topics, the environment surrounding financial institutions like Urwego Bank plc is continuing to change and become increasingly challenging. Key challenges include economic hardships faced by our customers as a result of the COVID-19 pandemic, technological advancement that is replacing conventional banking with fintech and agency banking, and a competitive landscape that requires banks to make significant investments in human capital and technological capital to keep pace with emerging risks.

In order to achieve sustainable growth amidst these challenges, Urwego Bank PLC (“the Bank” or “Urwego” hereinafter) is undertaking structural and strategic changes in our branch network, agency banking platform, and staffing as well as sales growth strategies. We do this in a manner that works diligently towards the realization of our mission to provide a ladder of opportunity to underserved communities in Rwanda as we proclaim and live the Gospel of Jesus Christ.

Despite ongoing restructuring since 2017 to make Urwego a profitable bank, we were unable to achieve our earnings targets in 2020 amid bigger changes in the business environment than our initial assumptions. The market operating environment in 2020 including widespread effects of COVID-19 affecting our targeted customer base and global economic decline ultimately made our original strategic plan and budget unachievable. However, the Bank managed to maintain a stable funding base, control costs across the year to limit losses and helped the majority of our clients recover economically. Year-end portfolio-at-risk 30-days dropped to 9.21% from a height of 45.71% in May 2020. Year-end portfolio growth exceeded revised targets and came in 1% higher than 2019. Our staff and clients united together to achieve these impressive results and to maintain hope in the midst of previously unimaginable circumstances.

As the movement of people and goods throughout the world and the economic activity of countries became heavily restricted due to the COVID-19 pandemic, the global economy fell into negative growth for the first time in 11 years and Rwanda’s economy also entered a recession. The 2008 financial crisis began with the failure of a major U.S. financial institution, which seriously affected domestic export-related industries and the manufacturing industry in particular; yet the impact of this crisis was limited to some extent. The current economic crisis, however, which has its roots in public health, has had a major impact on consumer spending, resulting in a negative impact extending to almost all industries.

In these circumstances, while working to prevent the spread of further infection, Urwego is fully committed to the resumption and recovery of economic activity, with the highest priority being the support of underserved communities. We will fulfill our mission and contribute to the prosperous development of the underserved in Rwanda even in the midst of the COVID-19 outbreak, and we will work to overcome this difficult situation together with our most valued customers.

On behalf of the Board of Directors of Urwego Bank plc, I would like to express my deepest condolences to those who have lost their lives due to coronavirus disease (COVID-19) and my greatest sympathies to all those affected. I pray also for the early recovery of everyone suffering from the virus, and for its rapid containment.

Carl Daniel Lundblad
Chairperson of Board of Directors
Urwego Bank PLC

CEO's Note



The advent of COVID-19 fundamentally changed life as we know it, altering the way we work and cater to our customers' needs. As the Covid-19 emergency quickly evolved into a global economic crisis, we acted swiftly to protect our employees' wellbeing and the livelihoods of our customers while ensuring the bank's financial and operational resilience.

For the safety of our frontline employees and our customers, we put in place strict hygiene protocols at our offices and branches. These measures will remain in place until the risk of infection has abated. Our frontline employees deserve special recognition for their dedicated service and willingness to help our customers during difficult times.

At the on-set early March 2020, Urwego become seriously concerned about the COVID-19 pandemic, and end-March, it was clear that it would be necessary for the Bank to implement stringent measures to maintain banking operations.

With hindsight, it has become obvious' that modern digital technology would make it possible to run banking financial services indefinitely with around 70% of employees working from home and with the remaining 30% working under strict hygiene and physical distancing requirements. This scenario was far from obvious at the time and Urwego was pleased when the business continuity plans unfolded successfully.

It was very important that the Bank was doing everything it could to support clients through the extremely sudden and deep economic downturn created by the pandemic and the necessary public health responses. The Bank provided moratorium options to its affected customers with options to accept a grace period, apply for restructuring, refinancing, and/or reloading under certain eligibility conditions. In particular, we had to be sure that the bank's sustainability would not be placed at risk by such interventions.

It is clear that our clients now expect us to provide seamless and increasingly comprehensive services, via digital channels or in person when they choose. People and corporations are not looking for products and services, but for solutions. The pandemic has only accelerated and intensified these changes. Therefore, after careful discussion, the Bank has focused on the digital economy and on accelerating digitization.

2020 was a year of challenges and opportunities. I am satisfied that we solidified our relationships with our customers through our interventions, which positions us well to execute our refreshed strategy and achieve our ambitions. Allow me to express my heartfelt sympathies for all of those who have contracted COVID-19 and the many people who have been impacted in various ways by

the spread of the virus. I pray also for the early recovery of everyone suffering from the virus, and for its rapid containment in Jesus's name.

Christine Baingana
Chief Executive Officer
Urwego Bank PLC

Our History

Urwego Bank PLC is a licensed, Christian faith-based microfinance bank. Drawing upon its name (Urwego is the Kinyarwanda word that translates as “ladder” in English), Urwego's mission statement is, “To provide a ladder of opportunity to underserved communities in Rwanda as we proclaim and live the Gospel of Jesus Christ.”

Founded in 1997 by World Relief as Urwego Community Banking, the Bank joined the HOPE International network in 2005, shortly after Peter Greer became HOPE's president. In 2007, the Bank merged with Opportunity International Bank of Rwanda to become Urwego Opportunity Bank. Its key shareholders were HOPE International and Opportunity International whose shareholding amounted to 49.2% and 50% respectively, while World Relief US owned 0.8% of the Bank's total shares.

With the approval of the National Bank of Rwanda, Opportunity International sold its 50.2 percent ownership of Urwego to HOPE International in 2017, making HOPE a 99.2 percent shareholder in the Bank, with World Relief continuing to own 0.8% percent. *“We are delighted to deepen our long-standing partnership with Urwego,”* said Greer. *“We are confident in Urwego's team and have seen their example in Christ-like servant leadership. Together, we will stay true to Urwego's calling and do everything in our power to support continual operational excellence and significant impact throughout Rwanda.”*

Urwego seeks to reach Rwandans who are economically active but underserved by licensed banking institutions. It offers a full range of financial services, including loans and savings programs, as well as training to maximize the impact of financial products and empower clients for success in business, household management, and health.

Throughout its history, Urwego has disbursed billions of loans in Rwanda Francs to underserved Rwandan entrepreneurs to promote sustainability, social transformation, and spiritual impact. What differentiates Urwego from other banking institutions in Rwanda is found in its Mission, which informs the reason of its existence, how it conducts its operations/activities in Rwanda to achieve its core objectives and the motivating power to operate in the manner it operates.

MISSION

To provide a ladder of opportunity to underserved communities in Rwanda, as we proclaim and live the Gospel of Jesus Christ.

METHOD

We share the hope of Christ as we provide financial services and biblically based training that restore dignity and break the cycle of poverty

MISSION

The love of Jesus Christ motivates us to identify with those who living in poverty and be His hands and feet as we strive to glorify God.

INTEGO

Duha amahirwe abari mu rwego ruciriritse, tukanabaho tuvuga ubutumwa bya Yesu Kirisito.

UBURYO

Dutanga icyizere cya Kirisito, tubagezaho ibikorwa by' imari dushingiye ku nyigisho za Bibiliya, bikagarurira abantu agaciro tunarwanya Ubukene.

IKI DUSHISHIKAJE

Urukundo rwa kirisito rudushishikariza kumenya ababa mubukene. Tukababera ukuboko n'ibirenge duharanira guhesha Imana icyubahiro.

PASSION

PASSION guides our corporate culture and represents the qualities we seek and celebrate in our staff members.

PRAYER

On your knees, please (Psalm 95:6)

ALLEGIANCE

We will serve the Lord (Joshua 24:15)

SERVICE

We'll wash feet (John 13:14)

STEWARDSHIP

To whom much is given ... (Luke 12:48)

INNOVATION

We find solutions (Genesis 1:27)

OPTIMISM

Strength for today, bright hope for tomorrow (Lamentations 3:22-24)

NURTURING

Love one another as I have loved you (John 13:34)

ISHYAKA

PASSION ni umurongo ngenderwaho uranga umuco w'imikorere ya cu, ukagaranaza a gaciro n'ibyiza twifuzaga kandi twishimira mu bakazi ba cu.

ISENGESHO

Kuba ku mavi (Zaburi 95:6)

KUGANDUKIRA

Tuzakorera Uwiteka (Joshua 24:15)

UBUGARAGU

Twoza ibirenge (Yohana 13:14)

UBUSONGA

Uwahawe byinshi ... (Luka 12:48)

UGUHANGO UDUSHYA

Dushaka ibizubizo (Kuwa 35:30-33)

ICYIZERE CY'EJO HAZAZA

Imbaraga sa none, icyizere cy'ejo hszaza heza (Amaganya ya Yeremiya 3:22-24)

KUBAKA ABANDI

MuKundane nk'uko nabakunze (Yohana 13:34)

With the strong foundation of our 3Ms and Culture,
Urwego creates value through the diligent execution of our strategy.



Staff Engagement

Client Focus

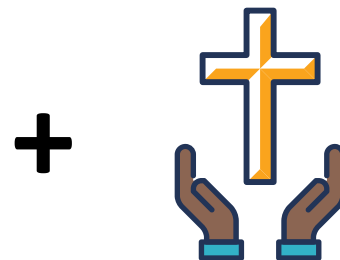
Controls and Risk
Management



Financial Outcome



Social Impact



Spiritual Impact

Our Governance

Urwego Bank PLC is committed to the best principles of Corporate Governance in running the operations of a company. The Bank strives to ensure compliance with all the rules, regulations, and laws of the country in the conduct of its business. The Bank is administered in pursuit of earning credibility, maximizing value for the shareholders, and meeting other stakeholders' expectations. The decision making and powers are exercised with integrity, responsibility, accountability, and transparency.

Board of Directors

Though the overall responsibility of monitoring and controlling the operational and financial performance of Urwego Bank PLC rests with the Board of Directors, the day-to-day management of the company has been delegated to the Chief Executive Officer. The Board of Directors meets at least quarterly and is chaired by an independent director.



Carl Lundblad
Independent Chairperson



Christine Baingana
Executive Director



Jesse David Casler
Non-Executive Director



Micah Crist
Non-Executive Director



Amanda Y. Fung
Independent Director



Moise Ndahiro
Non-Executive Director



John Nkubana
Independent Director



Liliane Uwintwali
Independent Director



Stanley Tsikirayi
Independent Director



Murekatete Rugege
Independent Director

Board Committees

The Board has instituted various committees to assist in fulfilling its role of monitoring key activities of Urwego Bank PLC. The Board reviews the reports and minutes of the committees and is accountable for their decisions and functions.

Board Audit Committee

The Board Audit Committee comprises the chairperson, the vice-chairperson and two members. Its key objective is to assist the Board in providing an independent review of the effectiveness of the financial reporting process. It helps in maintaining a sound and robust internal control system of the Bank. It reviews and approves an annual audit plan prepared by the Internal Auditor and oversees its execution. It recommends appointment, reappointment and removal of external auditors and assesses their independence. It ensures the effectiveness and quality of external audit services. It ensures that External Auditor receives due assistance from management and staff to enhance the quality of the audit report. The Board Audit Committee meets at least quarterly and is chaired by an independent director.

Board Risk and Compliance Committee

The Board Risk and Compliance Committee comprises the chairperson, the vice chairperson and three members. Its key objective is to oversee the risk management strategy and risk management policy of the Bank. It monitors overall exposure to risk and ensures that it remains within the limits set by the board. It sets out the nature, roles, responsibilities, and authority of the risk management department of the Bank and outlines the scope of the risk management work.

It meets quarterly chaired by an independent director, to monitor developments relating to the practice of corporate accountability, providing independent and objective oversight, and reviewing the information presented by management on corporate accountability and associated risks.

Board Credit Policy Committee

The Board Credit Policy Committee comprises the chairperson, the vice-chairperson and two members. Its key objective is to review and oversee the Bank overall lending policy. It identifies credit risks to minimize risks of bad and doubtful loans. It assists the Board in exercising its roles to review the quality of loan portfolio, adequate provisioning for bad and doubtful debts in accordance with Board approved provisioning policy, accounting standards and the Central Bank guidelines. It approves loans above a certain threshold based on lending policy approved by the Board.

The Board Credit Policy Committee meets at least quarterly and is chaired by a non-executive director.

Board Nomination, Remuneration, Human Resource (HR) and Spiritual Integration (SI) Committee

The Board Nomination, Remuneration, Human Resource (HR) and Spiritual Integration (SI) Committee is comprised of the chairperson, the vice-chairperson and three members. Its key objective is to ensure that the Bank has the right human resources, in the right positions with the right resources to drive the bank's activities with higher motivation. Additionally, the committee provides oversight to compensation policies, practices, and recruitment as well as nomination and compensation of Board members. Moreover, the Board Nomination, Remuneration, HR and SI Committee ensures the Bank's pursuance of its mission to have Christ at the center of its financial services to better serve its customers.

The Board Nomination, Remuneration, HR & SI Committee meets at least quarterly and is chaired by an independent director.

Board IT and Business Committee

The Board IT and Business Committee is comprised of the chairperson, the vice-chairperson and three members. Its key objective is to ensure the Bank has a strong IT infrastructure to support the bank's operations and to help the Bank to efficiently carry on its strategies. The Board IT and Business Committee is also to ensure the effectiveness of strategies to mitigate IT-related risks namely cyber security and other emerging risks due to technological advancement. This committee also oversees the business functions of the Bank. This oversight includes strategy and policy review and ensuring that the personnel leading the department are competent to align core business services with The Bank's mission, method, motivation, and strategic plan. Moreover, the Board IT and Business Committee is vested with responsibilities to ensure that its financial services products are implemented to maximize value to all stakeholders and align with the Bank's mission.

The Board IT and Business Committee meets at least quarterly and is chaired by a non-executive director.

Board Executive Committee

The Board Executive Committee is comprised of the chairperson, the vice-chairperson and three members. The purpose of the Board Executive Committee is to enable, empower and authorize

the Senior Executives in the management of the overall business of Urwego Bank PLC and to respond to the changing business environment in which it operates. The Board Executive Committee's authorization includes all Asset, Liability, Finance and Administration (ALFA) matters, as well as Board Credit Committee decisions referred by the Management Credit Committee.

The Board Executive Committee meets at least monthly with the exception of Board meeting months and is chaired by an independent director.

Senior Leadership Team

Executive Team



Christine Baingana
Chief Executive Officer



Jimmy Rutabingwa
Chief Operations Officer



Faustin Zihiga
Chief Relationship Officer



Jessica Igoma
Senior Director of Finance



Alice Gasatura
Director of Risk & Compliance



Simon Mugisha
Director of Business

Executive Team Plus



Christian Kamari Mapendo
Director of Credit



Michel Rudasingwa
Director of Accounting &
Logistics



Wilson Karamaga
Director of Corporate
Services



Daniel Muligande
Director of Internal Audit

Our Business Model

A business model is defined as:

“the rationale of how an organization creates, delivers and captures value.”

The ways in which a business creates value are influenced by its business model, its strategy, and the particular goals of the organization.

Our Key Products

Urwego Bank provides group and individual banking services including current and savings accounts, business loans to MSMEs (micro, small, and medium enterprises) and loans to the agriculture sector. In extending loans to client, the bank specially focusses on underserved clients and job creation.

Our Inflows

Business activities	Financial impact		Social Economic Value created
Lend money to our clients	Net interest income and credit impairments with focus on mitigating credit risk and operational risk	Interest earned on loans granted to clients less loans not repaid.	Underserved individuals and cooperatives can borrow money to fulfil their current needs and future ambitions, supporting employment and inclusive economic growth in Rwanda
Source funding from client deposits and other funders	Interest expense with focus on mitigating market risk and liquidity risk.	Costs incurred on funds raised from depositors and other funders, used to lend to clients who need finance.	Depositors earn a return on the funds they place with Urwego, a safe haven for their money with a stable and reputable and Christian institution.
Revenue from other sources linked to core businesses and strategic investments	Other revenue (fees and commission on loans and remittances, interest income from investments and terms deposits)	Revenue earned from other sources to grow non-banking revenue streams	Strategic investments support inclusive economic activity and enable wealth creation, while also contributing to investments that drive Rwanda’s socioeconomic development.

Our Outflows

Business activities	Financial impact and associated risks		Social Economic Value created
Invest in our people	Staff costs	Cost of the people we rely on to consistently deliver exceptional client experiences, and the cost of professional development of our people to deal with a changing world of work.	Employees derive value from new, more appropriate reward structures, our enabling innovation mindset, and training that equips them with relevant skills for the future world of work within or outside of the Bank.
Invest in our operations (Branches and platforms)	Other operating expenses and overheads (rental costs, utilities, repair and maintenance, software licenses etc)	Cost of our day-to-day operations, both internal and partnerships in our supply chain.	Through our local procurement activities, we sustain businesses and job retention and growth in local economies.
Direct and indirect taxes to governments and regulators	Direct and indirect taxes	Cost of operating in various branches where we do business.	Various forms of taxation enable governments to earn revenues in Rwanda

Affordable Lending Rates

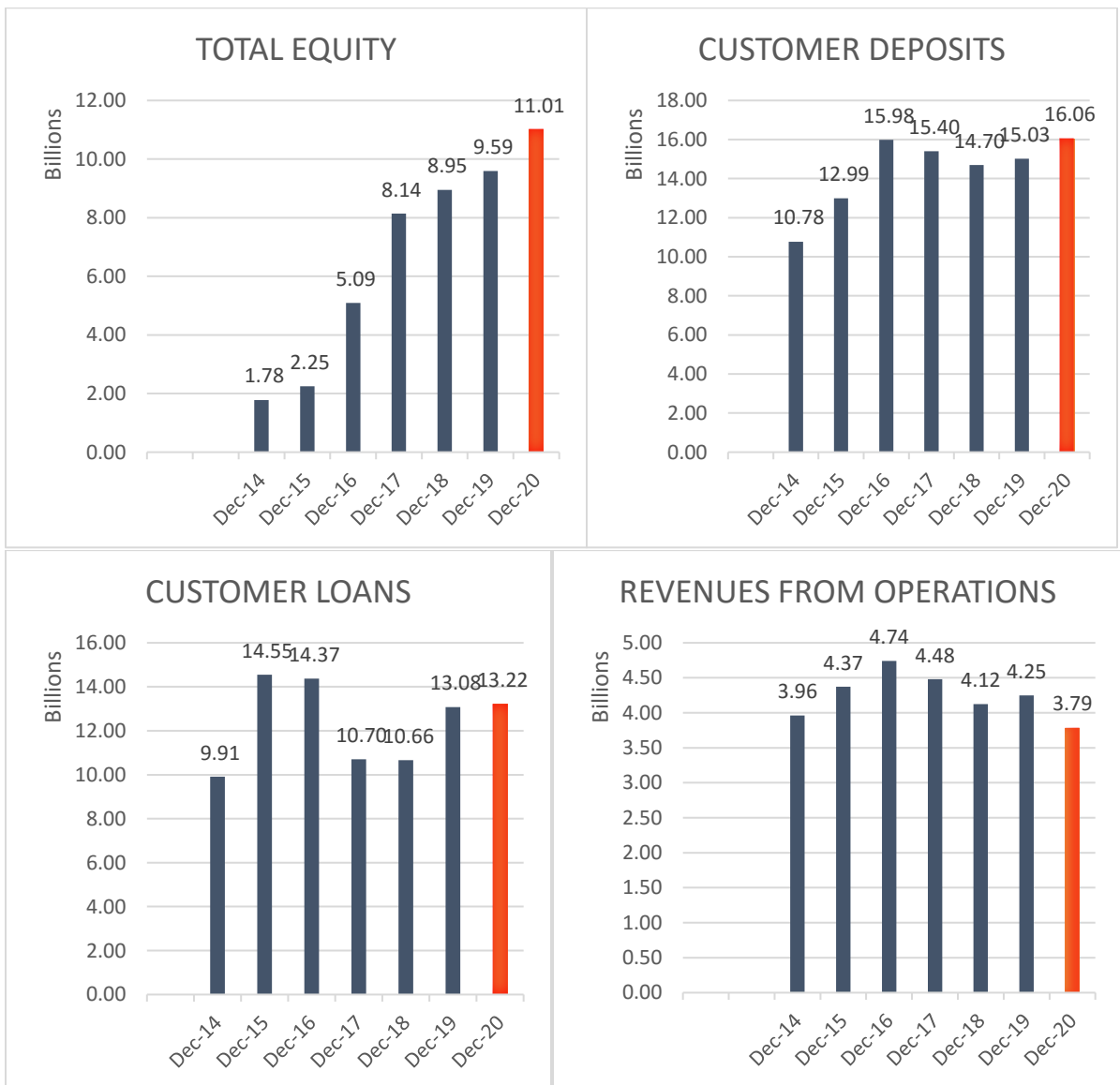
Despite a need to make a profit and therefore make the business model of our operations sustainable, Urwego Bank shareholders are not entirely profit driven but are transformation oriented. The Bank's biggest profit is in how many lives are financially transformed by our services thus our rates are also tailored in a similar manner. The lending rate ranges are established in the Credit Policy and Procedures for each product and incorporate the cost of product delivery as well as a profit margin. Client pricing within approved ranges is determined by various facts and circumstances surrounding each specific request.

Our Resources and Related Performance Highlights

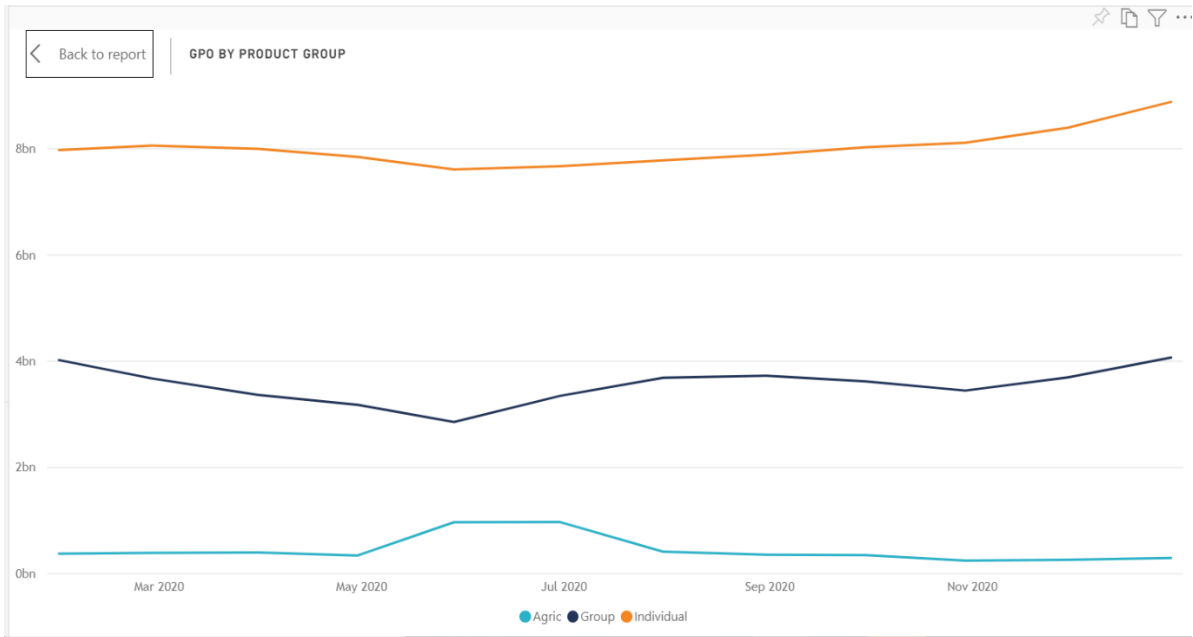
Financial Capital

The Bank has a solid and diversified source of funding including among others, shareholders' equity, both short and long term debts, guarantees to mention but a few. All those sources of funding play a pivotal role in the makeup of the financial capital in a bid to operationalize its strategy.

Overview of Key Financial Data

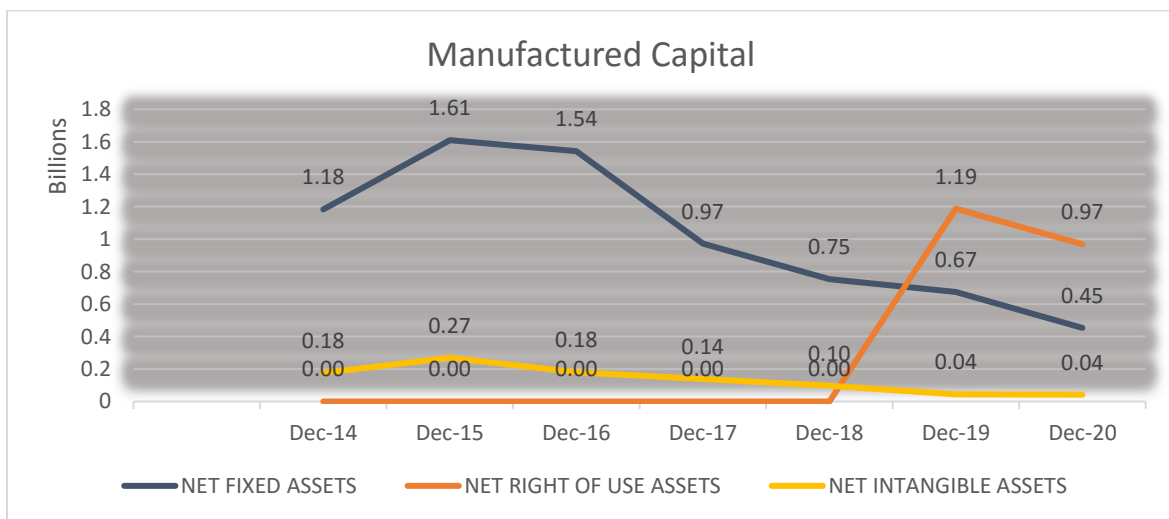


Gross Portfolio Outstanding by Product Group

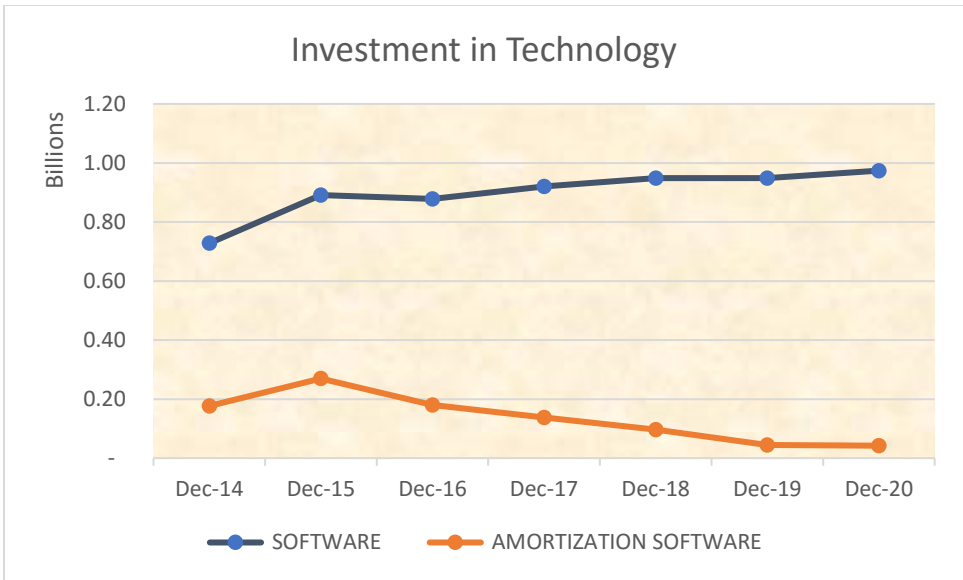


Manufactured Capital

Our IT infrastructure is the most material part of our manufactured capital, taking our strategic direction and evolving business model into consideration. With tremendous leapfrog in agency and mobile banking, the Bank’s strategy is changing to right-size its footprint in proportion to the business being transacted at branches. The Bank will focus on driving digital adoption while concentrating on mobile technology.



Net right use of assets increased in 2018 as a result of application of new IFRS 16.

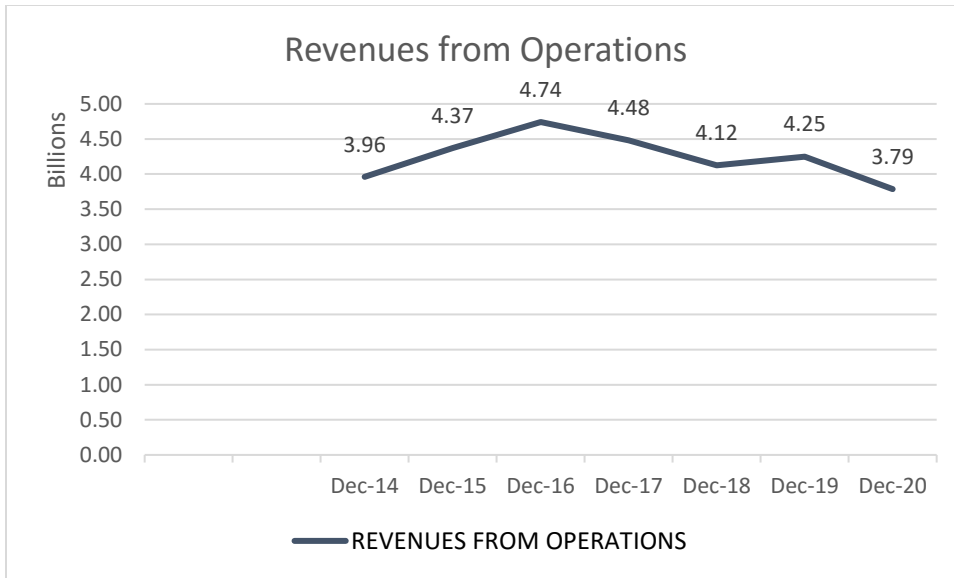


Social and Relationship Capital

Sound relationships with our stakeholders are vital to create and preserve value. These relationships serve as valuable capital in both good and challenging times. Social and relationship capital refers to the relationships that form the lifeblood of our business. This includes the institutions and relationships within and between our communities, stakeholder groups and other networks.

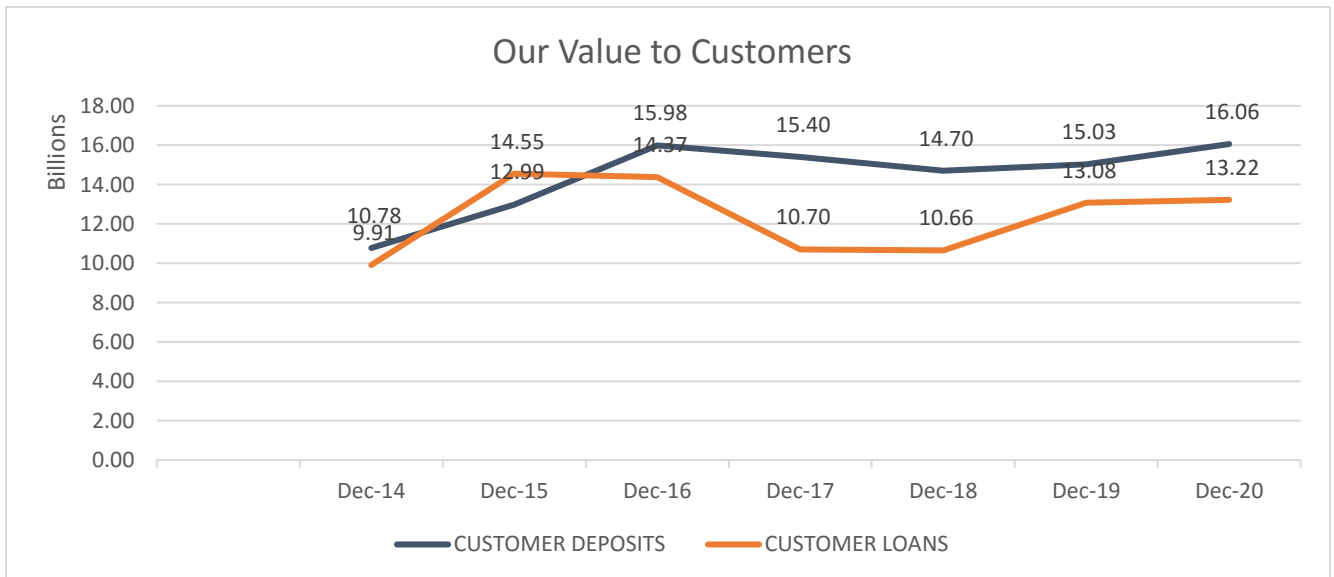
Investor Community

We create value for shareholders by delivering sustainable growth and returns. We aim to provide the market with enough information to make an informed assessment of our performance and our prospects.



Customers

To remain relevant, we offer innovative and cost-effective products and solutions. Customers provide revenue and are our main source of deposits that enable our lending activities.



Legal Fees

The Bank strives to conduct orderly and constructive relationship with its partners. However, there are some cases where litigations arose. The graph below shows legal expenses over the past 5 years compared to operational costs.



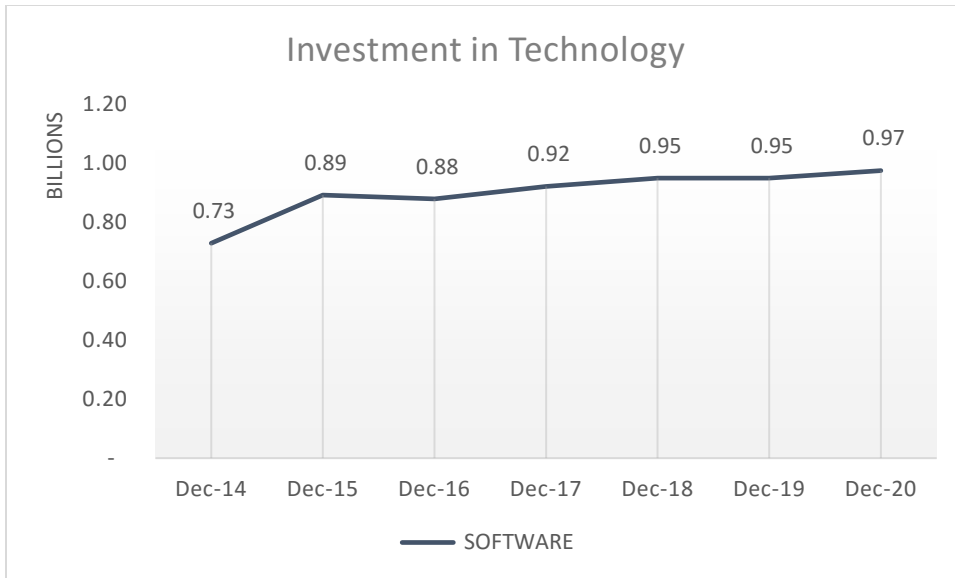
Regulators

Continuing to build and maintain sound, positive, and healthy relationships with regulators and government is essential, given the vital role they play in ensuring the stability of the financial system.

As we operate in a highly regulated environment, we follow a structured approach to ensure that all the business processes, policies or system changes necessary for regulatory compliance are implemented. In the normal course of business, regulators conduct reviews of our controls and progress in meeting regulatory requirements. Our communications with regulators are open and transparent and we engage constructively during inspections and investigations.

Intellectual Capital

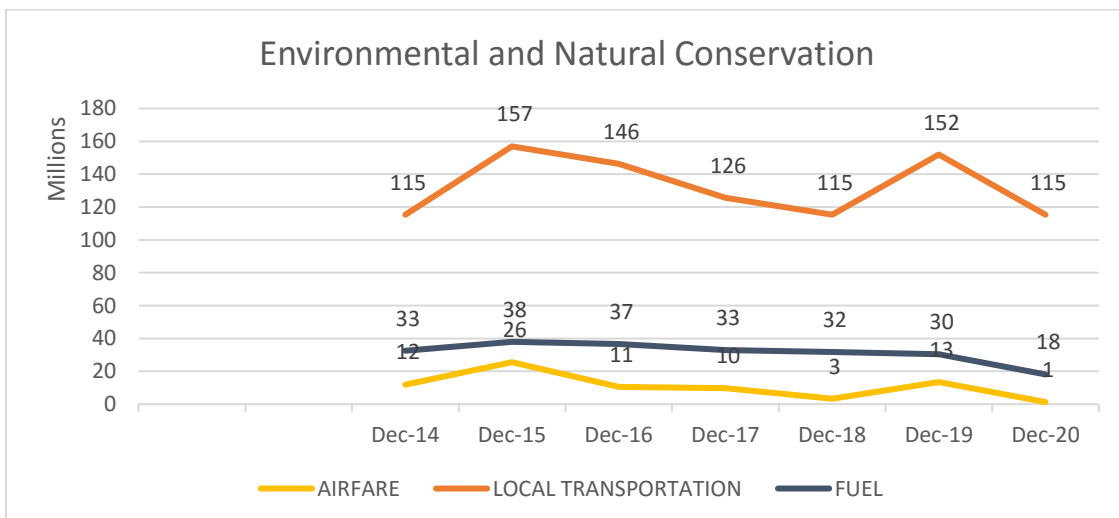
Intellectual capital refers to our intellectual property and organisational capital, including tacit knowledge, systems, procedures, and protocols. Our ability as an organisation to innovate in order to meet pressing and future needs is also considered part of our intellectual capital.



The Bank has adopted mobile banking services through technological platform known as mHose. The later allows customers to perform banking transactions through agents, pay merchants, check balance to mention but a few. On December 31, 2020, the number of active customers was at 31,275. The total number of online transactions was 118,847 for the month of December. By year-end, over 80% of all cash transactions at Urwego were processed on digital channels.

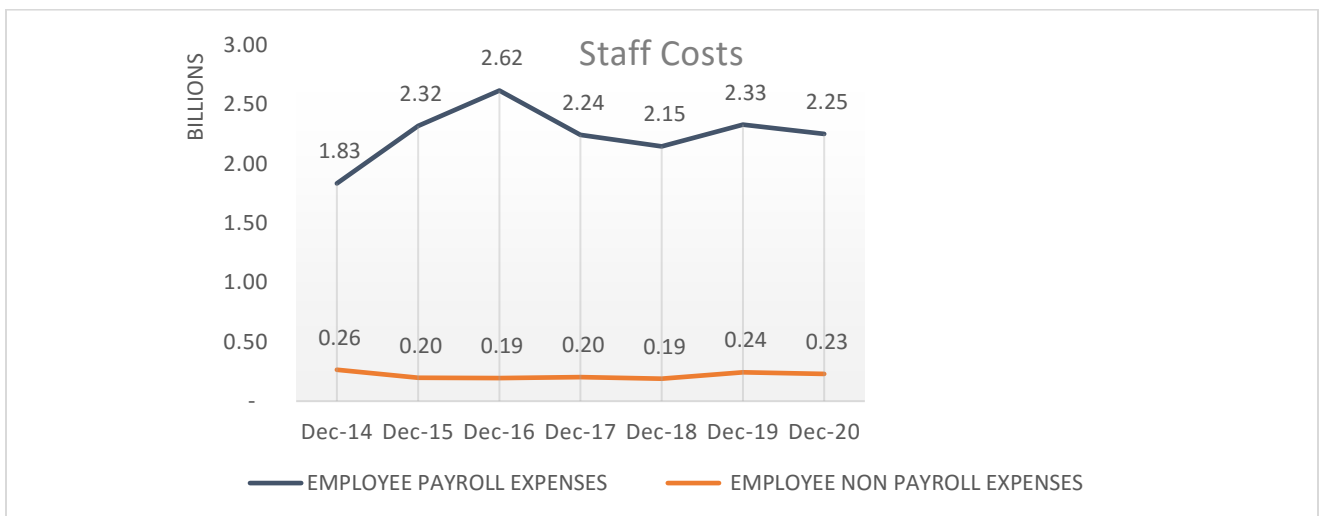
Natural Capital

Natural capital refers to all renewable and non-renewable environmental resources and processes that enable our business activities, thereby supporting our ability to create value in the short, medium, and long term. Urwego contributes to this by reducing transportation costs, fuel, and paper utilization expenses.



Human Capital

Our human capital refers to our employees' competencies and capabilities, as well as their motivation to innovate, in order to achieve our purpose by aligning with our strategic direction. Our people ambition is to create a thriving, future-fit organisation that attracts, develops, and retains the best people through a differentiated employee experience that brings their possibilities to life. Social welfare activities in Urwego Bank include celebrating birthdays, newborn babies and weddings for our staff; social and financial support for staff who lost their relatives in line with our policy; and we celebrate staff who have left the company recognizing their unique contributions to the company.



Our Activities and Branch Network

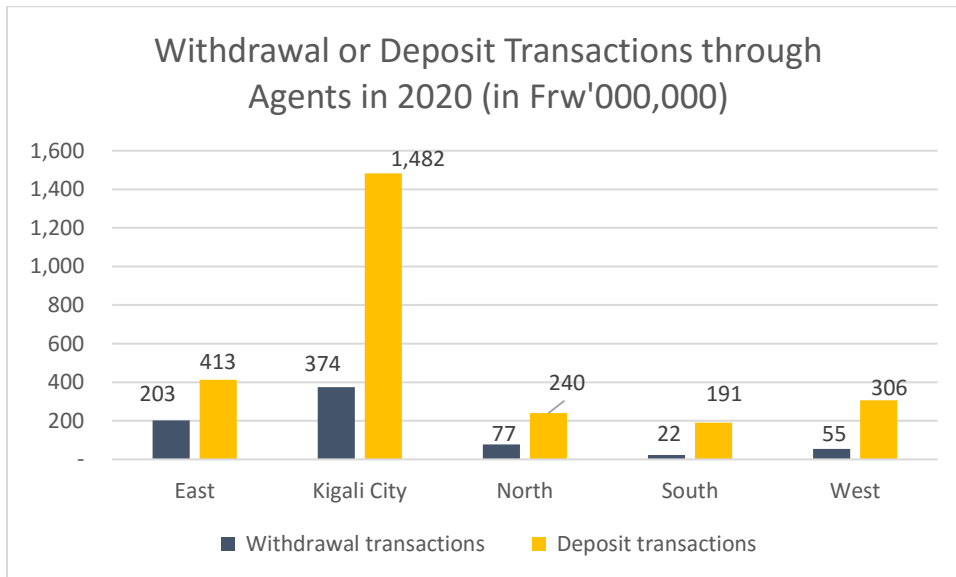
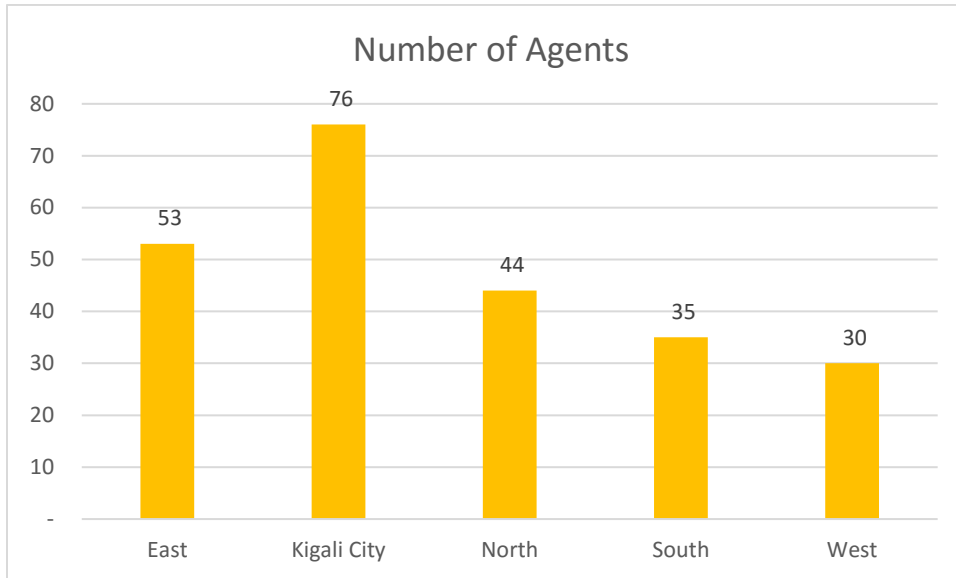
Urwego offers microfinance banking services to organized groups, individuals as well as other banking services to corporations, SMEs, and retail customers. The Bank operates with a branch network distributed across Kigali (4 service centers and 2 satellite branches) as well as upcountry (8 micro finance branches and 3 credit offices).

Our Services

- a) **mHose:** is a mobile platform that enables customers to access banking services and execute financial transactions (cash in and cash out) through agents anytime. mHose recently introduced Momo push and pull services between MTN-Momo balance and customers' accounts opened in the Bank.
- b) **Transfers:** You can transfer your money to national and international banks with the support of Urwego (Transfer to internal accounts, Transfer from/to another bank nationally or internationally using RPPS, Transfer from/to another bank nationally or internationally using SWIFT code).
- c) **Remittances:** Remittances can be done in USD or RWF depending on the service provider. Clients must ask for the FOREX daily exchange rate at their Urwego Bank branch. Remittance partners include:
 - Western Union
 - RIA
 - MoneyGram
- d) **Agent Banking:** Agent Banking means providing limited scale **banking** and financial services to the underserved population through engaged **agents** rather than a teller/cashier.



The Bank has an agent network across the country. In year ended 31 December 2020, Urwego had 238 agents that facilitate customers' withdrawal and deposit transactions, among others. Withdrawals through agents amounted to Frw 730m whereas deposits through agents totaled Frw 2.6bn. The graphs below show number of agents as well as withdrawals or deposits transactions processed through agency in the reporting period.



Our Products

Whatever your finance needs, we offer a flexible range of loans and savings products and services to help you achieve your goals.



Kiva Guaranteed Loans

Kiva offers a financial guarantee for clients who do not have collateral under Kiva-set eligibility criteria. In case unfortunate situations cause a Kiva supported loan to default, Kiva refunds the Bank principal amount still due from the client hence reducing loss to only unpaid interest and penalties. This Kiva guarantee allows the Bank to expand its outreach to women and other financially excluded groups. In addition to client guarantees, Kiva also supported Urwego in 2020 with a crisis support loan of \$408,375.



Description from Kiva's website of crisis support loan.

Urwego is a community-focused bank located in Kigali. Since 2009 (one of Kiva's earliest partnerships!), Urwego Bank has worked with Kiva lenders to provide loans to over 95,000 borrowers with more than \$28 million dollars lent through Kiva.org. Urwego has a strong social impact mission and tailors loan products to low-income and underserved clients, particularly clients who don't have the collateral to get a loan and are typically excluded from the regular financial system. Urwego, with the support of Kiva lenders, has served over 69% women with nearly \$19 million dollars in loans. While historically a stable and sustainable organization, the global pandemic has led to Rwanda being under lockdown, which has severely impacted Urwego's operations including reducing their ability to disburse loans and to receive repayments on the loans they disbursed before the crisis. Like many other businesses, Urwego is unable to operate normally as a result of the crisis, leading to a need to access flexible working capital. This loan will allow them to kickstart recovery, getting capital to borrowers who need it urgently to re-start their businesses.

This loan is part of Kiva’s Crisis Support Loan program to assist our Field Partners directly so they can continue to support our borrowers. Because it is part of a pilot program, this loan may have a higher risk.

This loan is special because:

“This loan helps Field Partners withstand negative economic impacts of the COVID-19 pandemic.”

- Average annual income (USD): \$1,700
- Funds lent in Rwanda: \$52,043,775
- Rwanda Francs (RWF) = \$1:950.7
- Loans currently fundraising: 119

Agriculture Loans

Urwego Bank extends agriculture loans to cooperatives registered in Rwanda Cooperative Association, groups guaranteed by registered cooperatives, agro-dealer cooperatives, and individuals, as well as individual farmers.

There are different categories of products financed including Maize, Rice, Potatoes, and Coffee.

Services offered to farmers and cooperatives include Inputs Financing (Seeds/ seedlings, Organic/inorganic Fertilizers (DAP, UREA, NPK, + Manure), Labor Financing, Post-harvest Financing, Equipment & Asset Financing.



Urwego Bank in The News...

Gukorana n’Urwego Bank byahinduriye benshi ubuzima mu Rwanda (Translated as “Working with Urwego Bank has transformed lives for many people in Rwanda) article *written in Imvaho Nshya* by NYIRANEZA JUDITH on 10-08-2020 at 04:55:45 and available on this <http://imvahonshya.co.rw/gukorana-nurwego-bank-byahinduriye-benshi-ubuzima-mu-rwanda/>



Abagana Urwego Bank bavuga ko yabafashije kwiteza imbere kubera ko ifasha abantu bari mu byiciro bitandukanye by’imibereho, kuko itanga inguzanyo mu matsinda ndetse n’abantu ku giti cyabo nk’uko byatangajwe na bamwe mu bakiriya bayo.

Mutuyemariya Xavera wo mu Karere ka Ngoma ni umwe mu bavuga ko kuba ari umukiriya wa Urwego Bank byamukuye mu buzima bubi, ubu akaba hari aho ageze hafatika nk’uko yabitangarije Imvaho Nshya.

Ati: “Ndi umukiriya wa Urwego Bank guhera mu 2005. Navuye kure. icyo gihe nari mfite imibereho mibi, ariko nagannye Urwego baduha amafaranga mu itsinda ibihumbi 15, nkajya nshuruza imboga n’imbuto ari ugushakisha icyatuma umuntu aramuka, buri cyumweru tukishyura 2000. Iyo itsinda ryarangizaga kwishyura ryafataga andi mafaranga yisumbuyeho, gutyo”.

Yongeyeho ko yagiye atera intambwe mu kwiteza imbere, bituma afata inguzanyo ku giti ke kandi imufasha gutera imbere.

Ati: “Nyuma naje gufata amafaranga ku giti cyange nyashora mu mishinga itandukanye, harimo ubworozi naguze n’amasambu, ubu rwose hari urwego ngezeho kandi rwiza mbikesha Urwego Bank”.



Uyu ni Mutuyemariya Xavera , umwe mu batejwe imbere n’Urwego Bank

Amakuru Imvaho Nshya ikesha Umukozi mu Urwego Bank, William Kanyesigye ni uko Urwego Bank ari Ikigo k’imari cya gikiristu gitanga inguzanyo kandi kikakira n’ubwizigame bw’abanyamuryango bacyo. Kikaba kibanda ku bantu bafite amikoro make kugira ngo na bo bazamuke bakabasha kwiteza imbere ntawuhezwa kubera idini cyangwa ibindi byose bishobora gutera ivangura.

Buri Munyarwanda wese yemerewe gufungura konti iyo afite ibyangombwa byemewe n’amategeko, igihe atari ku rutonde ruba rwaratanzwe n’ubuyobozi rw’abafite imiziro (blacklisted people).

Kanyesigye ati “Hari konti zo gukoresha z’ubucuruzi umuntu abitsa akanabikuza ku buntu akishyura amafaranga y’u Rwanda 500 ku kwezi. Ari yo twita Ikaze. Konti yo kuzigama aba ari ubuntu ahubwo ikungukira nyirayo 5% ku mwaka yitwa Gwiza; konti z’abana na zo zunguka neza umuntu aba yemerewe kubikuza rimwe mu kwezi yunguka 8% akagera kuri konti buri gihembwe. Ikindi ni uko bitabuza n’ufite ikompanyi (company) gufungura konti.”

Uretse kuba ahari uburyo butandukanye bwo kuzigama, mu Urwego Bank banatanga inguzanyo mu matsinda no ku bantu ku giti cyabo.

Mu matsinda baroroherezwa kuko byitwa ko ari abantu b’amikoro make bagashyirwa mu bwishyingizi magirirane, bikabafasha gukura mu bucuruzi bwabo kandi n’abantu ku giti cyabo bafashwa mu rugendo rwo kugera ku nzuzi mu mishinga bafite itandukanye n’ubujyanama.

Dutanga inguzanyo z’ubuhinzi bakishyura babonye umusaruro kandi byose bitangwa ku giciro gito n’inyungu nto.

Hari uburyo bw’ikoranabuhanga butuma Urwego Bank babasha kugera ku bakiriya babo, bagashobora kubitsa no kubikuza, kimwe no kwishyura inguzanyo bakoresheje terefone zabo.

Mu rwego rwo gufasha abakiriya kandi mu guhangana n’icyorezo cya Covid19, babashishikariza gukoresha ikoranabuhanga.



Urwego Bank yahinduye ubuzima bwa benshi bahereye ku busa bakagera ku ntera ishimishije



Ni Banki itanga inguzanyo ku banyotewe n'iterambere badafite imiziro

Overview of the Bank's Financial Performance

Bank's Operations and Performance amidst COVID-19

The Bank like the rest of the world struggled to cope up with impact of COVID-19 pandemic. Management revised projections to incorporate forecasted impact of COVID-19. The Bank expected challenges namely due to:

- Significant decline in customers deposits due to expected avalanche of withdrawals by depositors to support their families amidst COVID-19.
- Significant decline in loan portfolio due to difficulties in extending loans to clients as result of lockdown. Further, it was expected that some sectors of economy may be risky to loan namely those in non-essential business or sharp increase in unemployment.
- Coupled to deposits decline and poor loan performance of loan portfolio, the Bank was expecting to undergo a liquidity crisis.

The Bank's Management with the support of the Board of Directors worked together to take preventive measures to limit impact of forecasted challenges. The following were strategies devised by the Bank to curb of the COVID-19 impact to its operations:

- Mobilization of short and long-term loans to deal with forecasted liquidity problems. This effort resulted in the Bank's short and long-term debt increasing by 159% compared to prior year same period.
- Injection of extra capital by shareholders. Capital injection was 120% more than injected in year ended 31st December 2019.
- More investment in digitization whereby clients were allowed to link their deposit accounts with to telecom such that they may push or pull cash from their accounts to their mobile platform and vice versa.
- Close monitoring of Bank's operations on daily basis
- Close proximity to staff and clients to ensure that they receive financial and morale support. In addition, the Parent company issued a bonus to the Bank's staff. Clients were extended payment facilitation in line with each one respective conditions as detailed below.

Management used liquidity received through borrowings or capital injections to boost its operations and also support its customers that were struggling with impact of COVID-19 impact. In supporting the clients, the Bank put in place the following strategies:

- Extending payment moratorium to clients namely in groups loans that were highly affected by COVID-19.
- Clients had also option to request restructuring, reloaning, or refinancing of their loans. In December 2020, restructured loans represented 20% of outstanding loan portfolio. The table below gives a panoramic view of restructured loans status at December 2020:

Restructured loans as at 31 December 2020	Observation
No. of borrowers with restructured loans	5,016
No. of loans restructured	5,196
Amount outstanding (Frw'000) on restructured loans	2,725,697
Provision thereon (Frw'000) (regulatory)	377,748
Restructured loans as % of outstanding loan amounts (all borrowers)	20%

Key Financial Highlights

As described above, strategies put in place by Management and Board of Directors mitigated impact of COVID-19 to Bank's operations. As a result, the Bank's performance was much better than previously anticipated. In a special way, the following are key results:

Particulars	Dec-2020 Frw '000	Dec-2019 Frw '000	YOY variance
Cash and cash equivalents	5,368,714	3,549,351	51%
Customers' deposit	16,080,577	15,044,826	7%
Gross Loan Portfolio	13,446,206	13,247,330	2%
Financial Investments	3,001,761	1,611,709	86%
Shareholders' equity	3,430,178	3,220,741	7%
Total assets	23,397,478	21,350,765	10%

As per the table above, the Bank performed well in most key areas of its financial position compared to results of year ended 31st December 2019.

Overview of Key Financial Statements

The following section outlines statement of financial performance statement of financial position and other disclosures as well as some notes thereof. Other detailed financial statements are found on audited financials that is available to the Bank's website (www.urwegobank.com).

Statement of profit and loss and other comprehensive income

	Note	Dec-20 Frw'000	Dec-19 Frw'000
Interest and similar income	3	3,119,764	3,408,569
Interest and similar expense	4	<u>(364,997)</u>	<u>(458,066)</u>
Net interest income		<u>2,754,767</u>	<u>2,950,503</u>
Fee and commission income	5(a)	659,955	827,767
Fee and commission expense	5(b)	<u>(195,352)</u>	<u>(136,225)</u>
Net fees and commission income		<u>464,603</u>	<u>691,542</u>
Net foreign exchange income		264,206	142,746
Premium income	5(c)	14,817	17,242
Other operating income	6	<u>603,674</u>	<u>614,198</u>
Total operating income		<u>4,102,067</u>	<u>4,416,231</u>
Impairment losses on financial assets	7	(919,982)	(29,458)
Operating income after impairment losses		<u>3,182,085</u>	<u>4,386,773</u>
Personnel expenses	8	(2,478,061)	(2,572,757)
Depreciation on property and equipment	9	(165,276)	(215,680)
Amortization of intangible assets	10	(29,166)	(54,074)
Depreciation on right of use assets	11	(277,081)	(307,108)
Other operating expenses	12	<u>(1,443,136)</u>	<u>(1,589,580)</u>
Total operating expenses		<u>(4,392,720)</u>	<u>(4,739,199)</u>
Loss before tax		(1,210,635)	(352,426)
Income tax credit/ (charge)	13	-	-

	Note	Dec-20 Frw'000	Dec-19 Frw'000
Loss for the year		<u>(1,210,635)</u>	<u>(352,426)</u>
Other comprehensive income		-	-
Total comprehensive loss		<u>(1,210,635)</u>	<u>(352,426)</u>

In year ended 31st December 2020, the loss increased by 244% compared to year ended 31st December 2019. This loss was namely caused by revision of expected credit loss to incorporate impact of COVID-19. Excluding provision impact, the Bank's performance would have been better by 10% compared to prior year same period.

Statements of Financial Position

	Note	Dec-20 Frw'000	Dec-19 Frw'000
ASSETS			
Cash in hand	14(a)	652,572	507,328
Due from the National Bank of Rwanda	14(b)	515,712	452,467
Due from other banking institutions	14(c)	4,894,856	3,366,406
Loans and advances to customers	15	12,216,022	12,995,100
Financial investments	16	3,001,761	1,611,709
Other assets	17	339,954	254,592
Current income tax assets		310,524	252,207
Property and equipment	9	453,349	674,170
Right of use assets	11	968,174	1,187,801
Intangible assets	10	44,554	48,985
TOTAL ASSETS		<u>23,397,478</u>	<u>21,350,765</u>
LIABILITIES			
Deposits from customers	18	16,080,577	15,044,826
Other payables	19	980,770	1,172,018
Borrowed funds	20	2,905,953	1,913,180
TOTAL LIABILITIES		<u>19,967,300</u>	<u>18,130,024</u>
EQUITY			
Share capital	21(a)	11,012,677	9,592,677
Share premium	21(b)	(1,394,481)	(1,394,553)
Accumulated losses		<u>(6,188,018)</u>	<u>(4,977,383)</u>

Total equity	3,430,178	3,220,741
TOTAL LIABILITIES AND EQUITY	<u>23,397,478</u>	<u>21,350,765</u>

The Bank's financial position remained stable and even better than prior year same period despite impact of COVID-19. Its assets increased by 10% compared to prior year same period.

Other disclosures

Item	Figures in Frw'000		
A. CAPITAL STRENGTH			
a. core capital (Tier 1)	3,385,624		
b. supplementary capital (Tier 2)	-		
c. total capital	3,385,624		
d. total risk weighted assets	14,723,387		
e. core capital/ Total risk weighted assets ratio (Tier 1 ratio)	22.995%		
f. tier 2 ratio	22.995%		
g. total capital/total risk weighted assets ratio	22.995%		
h. leverage ratio	14%		
B. CREDIT RISK			
1. total gross credit risk exposures: after accounting offsets and without taking into account credit risk mitigation;	21,146,784		
2. average gross credit exposures, broken down by major types of credit exposure:	21,146,784		
a) loans, commitments, and other non-derivative off-balance sheet exposures;	-		
b) debt securities;	-		
c) OTC derivatives	-		
3. Regional or geographic distribution of exposures, broken down in significant areas by major types of credit exposure;			
a. Kigali City	8,059,732		
b. Northern Province	670,184		
c. Eastern province	2,174,230		
d. Western Province	1,257,149		

Item	Figures in Frw'000		
f. Southern Province		1,284,911	
4. Sector distribution of exposures, broken down by major types of credit exposure and aggregated in the following areas:			
a) public;		515,712	
b) financial;		4,894,856	
c) manufacturing;		-	
d) infrastructure and construction;		6,518,963	
e) services and commerce.		4,957,895	
f) others		3,310,991	
5. Off- balance sheet items		425,000	
6. Non-performing loans indicators			
a) Non-performing loans (NPL)		512,944	
b) NPL ratio		3.81%	
7. Related parties			
a. Loans to directors, shareholders, and subsidiaries		-	
b. Loans to employees		370,313	
8. Restructured loans as at 31 December 2020			
a. No. of borrowers with restructured loans		5,016	
b. No. of loans restructured		5,196	
c. Amount outstanding (Frw'000) on restructured loans		2,725,697	
d. Provision thereon (Frw'000) (regulatory)		377,748	
e. Restructured loans as % of outstanding loan amounts (all borrowers)		20%	
C. LIQUIDITY RISK			
a. Liquidity Coverage Ratio (LCR)		235%	
b. Net Stable Funding Ratio (NSFR)		246%	
D. OPERATIONAL RISK			
		Types	Number
			amount Frw'000
a. Number and types of frauds and their corresponding amount	Misappropriation of Funds	1	330
E. MARKET RISK			
a. Interest rate risk		-	
b. Equity position risk		-	
c. Foreign exchange risk		15,384	

Item	Figures in Frw'000		
F. COUNTRY RISK			
a. Credit exposures abroad	-		
b. Other assets held abroad	522,938		
c. Liabilities to abroad	1,777,925		
G. Management and board composition			
a. Number of Board members	10		
b. Number of independent directors	6		
c. Number of non-independent directors	4		
d. Number of female directors	4		
e. Number of male directors	6		
f. Number of Senior Managers	6		
g. Number of female senior managers	3		
h. Number of male senior managers	3		

Key notes to financial statements

a) Primary geographic markets

The Bank realizes its revenues from contracts with customers on local markets. The table below highlights revenues reallocations by key regions:

As at 31 December 2020

Geographic markets	Interests on loans (Frw'000)	Fees and commission on loans (Frw'000)	Financial instruments at amortized costs (Frw'000)	Finance income from sublease (Frw'000)	Other fees and commission income (Frw'000)	Total (Frw'000)
Eastern province	534,969	65,560			35,181	635,710
Kigali city	1,496,005	210,226	307,746	4,387	189,203	2,207,567
Northern province	167,815	28,799			8,785	205,399
Southern province	325,058	50,121			16,206	391,385
Western province	283,259	58,345		524	12,347	354,475
Total	2,807,106	413,051	307,746	4,911	261,722	3,794,536

As at 31 December 2019

Geographic markets	Interests on loans (Frw'000)	Fees and commission on loans (Frw'000)	Financial instruments at amortized costs (Frw'000)	Finance income from sublease (Frw'000)	Other fees and commission income (Frw'000)	Total (Frw'000)
Eastern province	559,782	122,542			41,006	723,330
Kigali city	1,684,110	240,746	274,208	3,248	193,234	2,395,546
Northern province	188,814	48,348			9,454	246,616
Southern province	359,508	74,414			20,573	454,495
Western province	338,299	83,612		600	11,081	433,592
Total	3,130,513	569,662	274,208	3,848	275,348	4,253,579

Note: In 2019 other fees and commissions income totaling Frw 279,196 ('000) were inclusive of Frw 3,848 ('000) income from sublease. In 2020, it was resolved to present sublease income in its own subcategory. For comparison purpose, 2019 other fees and commissions income were split as well between sublease income and other fee and commission income.

b) Contract counterparties

The Bank main source of incomes is loans through interest income and fees from loans. Therefore, contract counterparties were based on key loans products namely group loans, agriculture loans, individual loans, small and medium enterprises. Other counterparties include government and financials instruments at amortized costs. The table below summarizes revenues by contract counterparties as of 31 December 2020.

As at 31 December 2020

Counterparties	Interests on loans (Frw'000)	Fees and commission on loans (Frw'000)	Financial instruments at amortized costs (Frw'000)	Finance income from sub lease (Frw'000)	Other fees and commission income (Frw'000)	Total (Frw'000)
Agric	87,589	8,434	-	-	-	96,023
Group	1,291,717	238,161	-	-	-	1,529,878
Individual	763,168	60,329	-	-	-	823,497
Others	1,280	45,443	-	4,911	261,722	313,356
Government	-	-	197,283	-	-	197,283
financial institutions	-	-	110,463	-	-	110,463
SME	622,217	59,935	-	-	-	682,152
Staff	41,135	749	-	-	-	41,884
Total	2,807,106	413,051	307,746	4,911	261,722	3,794,536

As at 31 December 2019

Counterparties	Interests on loans (Frw'000)	Fees and commission on loans (Frw'000)	Financial instruments at amortized costs (Frw'000)	Finance income from sub lease (Frw'000)	other fees and commission income (Frw'000)	Total (Frw'000)
Agric	109,095	21,583	-	-	-	130,678
Group	1,714,841	364,090	-	-	-	2,078,931
Individual	861,331	102,204	-	-	-	963,535
Others	1,768	47,126	-	3,848	275,348	328,090
Government	-	-	165,903	-	-	165,903
financial institutions	-	-	108,305	-	-	108,305
SME	405,073	33,806	-	-	-	438,879
Staff	38,405	853	-	-	-	39,258
Total	3,130,513	569,662	274,208	3,848	275,348	4,253,579

The table below summarizes key revenue from contracts with customers in line with service type:

Income type	Dec-20 Frw'000	Dec-19 Frw'000
Banking operations	200,506	208,499
Investments	307,746	274,208
Loans	3,220,159	3,700,175
Mobile banking	53,020	52,434
Remittances	6,249	6,090
Sublease	4,911	3,848
ATM	1,945	8,325
Grand Total	3,794,536	4,253,579

d) Timing of performance obligation

The Bank's revenues from contracts with customers are realized either overtime or in time. Overtime revenues are collected over a term as per contract terms. In time revenues are collected and recognized in the very time. The table below highlights performance obligations timing for different revenues from customers:

As at 31 December 2020

Performance obligation	Interests on loans (Frw'000)	Fees and commission on loans (Frw'000)	Financial instruments at amortized costs (Frw'000)	Finance income from sub lease (Frw'000)	Other fees and commission income (Frw'000)	Total (Frw'000)
Overtime	2,807,106	186,695	96,795	4,911	131,153	3,226,660
In time	-	226,356	210,951	-	130,569	567,876
Total	2,807,106	413,051	307,746	4,911	261,722	3,794,536

As at 31 December 19

Performance obligation	Interests on loans (Frw'000)	Fees and commission on loans (Frw'000)	Financial instruments at amortized costs (Frw'000)	Finance income from sub lease (Frw'000)	Other fees and commission income (Frw'000)	Total (Frw'000)
Overtime	3,130,513	362,336	190,988	3,848	275,348	3,963,033
In time	-	207,326	83,220	-	-	290,546
Total	3,130,513	569,662	274,208	3,848	275,348	4,253,579

3. Interest and similar income

	Dec-20 Frw'000	Dec-19 Frw'000
Loans and advances	2,807,107	3,130,513
Investment security held at amortized costs	307,746	274,208
Finance income on sublease	<u>4,911</u>	<u>3,848</u>
	3,119,764	3,408,569

4. Interest and similar expense

Interest on debt	3,374	-
Interest on savings accounts	190,421	182,281
Interest on term deposits	60,191	59,597
Finance costs on lease	<u>111,011</u>	<u>216,188</u>
	364,997	458,066

5. Fees, commission and premium income

a) Fees and Commission income

Credit related fees and commissions	189,829	191,218
Loan processing fees	208,405	361,201
Account maintenance fee	181,717	156,387
Local and international transfer	59,637	62,654
Other fee and commission income	<u>20,367</u>	<u>56,307</u>
	659,955	827,767

Other commissions relate to money SMS fees, Pivot access, ATM card fees and other revenue on banking transactions.

b) Fees and commission expense

Bank charges	10,294	12,606
Other fee and commission expense	<u>185,058</u>	<u>123,619</u>
	195,352	136,225

c) Premium income

	Dec-20	Dec-19
	Frw'000	Frw'000
Premium income	<u>14,817</u>	<u>17,242</u>

Urwego Bank PLC collects premium income from group loans on behalf of a local insurance company called SANLAM (formerly SORAS). As per the agreement, 25% of the collections are retained by the Bank whereas the 75% is remitted to SANLAM.

6. Other operating income

Grant income	552,203	544,141
Miscellaneous income	<u>51,471</u>	<u>70,057</u>
	603,674	614,198

7. Impairment losses on financial assets

Balance as at January	252,230	250,704
Specific provisions for the year	1,109,088	214,767
Loans written off	<u>(131,134)</u>	<u>(213,241)</u>

	1,230,184	252,230
Charge for the year :		
Specific provisions	1,109,088	214,767
Recoveries on amounts written off	(202,470)	(195,433)
Loss on bad debts	<u>13,364</u>	<u>10,124</u>
	919,982	29,458

8. Personnel expenses

Salaries and wages	2,174,272	2,217,649
Medical insurance	180,580	128,721
Employer contributions to RSSB	113,518	115,009
Other personnel expenses	<u>9,691</u>	<u>111,378</u>
	2,478,061	2,572,757

Note: Notes 9 through notes 13 are detailed in audited reports

14. Cash and bank balances

a) Cash in hand

	Dec-20	Dec-19
	Frw'000	Frw'000
Cash in foreign currencies	150,305	128,431
Cash in local currencies	<u>502,267</u>	<u>378,897</u>
	<u>652,572</u>	<u>507,328</u>

b) Due from the National Bank of Rwanda

	Dec-20	Dec-19
	Frw'000	Frw'000
Balances in foreign currencies	24,188	14,537
Balances in local currency	<u>491,524</u>	<u>437,930</u>
	<u>515,712</u>	<u>452,467</u>

c) **Due from other banking institutions**

Balances in foreign currencies	3,027,143	2,182,797
Balances in local currency	<u>1,867,713</u>	<u>1,183,609</u>
	<u>4,894,856</u>	<u>3,366,406</u>

d) **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following;

Cash in hand	652,572	507,328
Due from the National Bank	515,712	452,467
Cash reserve balances with the National Bank	(714,356)	(796,256)
Due from other banking institutions	4,894,856	3,366,406
Short-term investments	<u>19,930</u>	<u>19,406</u>
Cash and cash equivalents	<u>5,368,714</u>	<u>3,549,351</u>

For the purpose of statement of cash flows, cash and cash equivalents comprise cash on hand, current accounts with National Bank of Rwanda, and amounts due from banks and government securities (treasury bills) with an original maturity of three months or less, net of outstanding bank overdrafts and restricted balances with National Bank of Rwanda. Banks are required to maintain a prescribed minimum cash balances with the National Bank of Rwanda that is not available to finance day to day activities. The amount is determined as 4% of the average outstanding customer deposits over a cash reserve cycle period of one month. None of the amounts above have been pledged as collateral during the period.

15. **Loans and advances to customers**

	Dec-20	Dec-19
	Frw'000	Frw'000
Community group loans	4,249,567	4,814,082
Individual loans	7,933,354	6,734,063
Staff loans	370,313	357,252
Salary loans	574,328	973,955
Agriculture loans	90,287	220,524
Interests receivable	<u>228,357</u>	<u>147,454</u>
	<u>13,446,206</u>	<u>13,247,330</u>
Individual impairment	(356,722)	(72,141)

Collective impairment	<u>(873,462)</u>	<u>(180,089)</u>
Total (Note 7)	<u>(1,230,184)</u>	<u>(252,230)</u>
Net Loans and advances	<u>12,216,022</u>	<u>12,995,100</u>
Current (settled no more than 12 months	4,957,946	5,900,153
Non-current (settled more than 12 months	<u>7,258,076</u>	<u>7,094,947</u>
after reporting		
	<u>12,216,022</u>	<u>12,995,100</u>

16. Financial Investments

	Dec-20	Dec-19
	Frw'000	Frw'000
Financial instruments at amortized costs		
Government debt security	1,733,000	1,544,000
Short term investments with other FI	1,219,930	19,407
Accrued interest receivable on financial investment	<u>48,831</u>	<u>48,302</u>
	<u>3,001,761</u>	<u>1,611,709</u>
Current	2,124,161	1,544,000
Non-current	<u>877,600</u>	<u>67,709</u>
	<u>3,001,761</u>	<u>1,611,709</u>

Other assets

	Dec-20	Dec-19
	Frw'000	Frw'000
Items in the course of collection	32,279	35,585
Prepayments	48,994	78,031
Other assets	110,953	13,553
Other receivable	132,275	116,699
Due from related parties (note 22c)	<u>15,453</u>	<u>10,724</u>
	<u>339,954</u>	<u>254,592</u>

Other receivables, Items in the course of collection, and other commissions receivable are non-interest bearing and are generally on short term period of 30 to 90 days. Items in the course of collection relate to inward transfers from money transfer agencies. Other assets primarily comprise amounts held in suspense accounts. Other receivables comprise mainly of VAT receivable, grants receivable and employee advances.

Dues from government relate to withholding tax and quarterly prepayments of CIT that was previously computed as part of deferred tax. In 2020, these are presented separately since there is no deferred tax computation.

18. Deposits from customers

Deposits from customers	Dec-20 Frw'000	Dec-19 Frw'000
Current and demand deposits	9,937,012	8,951,460
Saving deposits	5,250,038	4,826,316
Term deposits	871,176	1,249,172
Interest payable on deposits	<u>22,351</u>	<u>17,878</u>
	<u>16,080,577</u>	<u>15,044,826</u>

None of the deposits held were pledged as collateral. Break down between current and non-current deposits:

Current	15,357,409	15,044,826
Non-current	<u>723,168</u>	<u>-</u>
	<u>16,080,577</u>	<u>15,044,826</u>

The summary of terms and conditions for the various categories of deposits are below:

- a) Term deposits - These are interest-bearing accounts that are opened for a specific period of time at a fixed rate of interest. Funds are fixed on the account for specified term periods of time. Interest is calculated daily and paid only on maturity of the deposits. Interest rates are offered at competitive and attractive rates.
- b) Current and demand deposits – These are non-interest-bearing accounts that are due on demand. They are operated by both individuals and institutions. They are subject to transaction activity fees and/or monthly maintenance charges.
- c) Savings accounts - This is a deposit account designed for the average income earner that enables one to save some money and earn interest. The more one saves, the higher the interest. Interest on minimum monthly balances is accrued monthly and transferred to the account at maturity.

19. Other payables

	Dec-20	Dec-19
	Frw'000	Frw'000
Deferred grant income	339,105	549,353
Deferred processing fees	97,315	87,113
Accruals	342,947	367,837
VAT and withholding tax	76,430	73,361
Amounts due to related parties (note 22 (c))	85	18,636
Amount due to money transfer agency	1,362	3,242
Other payables	<u>123,526</u>	<u>72,476</u>
	<u>980,770</u>	<u>1,172,018</u>
Current	980,770	1,172,018
Non – current	<u>-</u>	<u>-</u>
	<u>980,770</u>	<u>1,172,018</u>

A grant is recognised as deferred revenue when grant funds are received and the Bank has the full intent to comply with the conditions attached to the grant. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

20. Borrowed funds

	Dec-20	Dec-19
	Rwf'000	Rwf'000
Kiva funds	903,678	685,303
Lease liabilities	1,064,273	1,150,586
Long term loans	874,247	-
Finance cost on lease	<u>63,755</u>	<u>77,291</u>
	<u>2,905,953</u>	<u>1,913,180</u>
Current	1,129,804	964,395
Non – current	<u>1,776,149</u>	<u>948,785</u>
	<u>2,905,953</u>	<u>1,913,180</u>

The movement in the borrowed funds is shown below:

	Dec-20	Dec-19
	Frw'000	Frw'000
Opening balance as at 1 January	1,913,180	474,308
Proceeds	1,679,588	475,597
Repayment	(686,815)	(264,602)
Lease liabilities	_____ -	<u>1,227,877</u>
Closing balance as at 31 December	<u>2,905,953</u>	<u>1,913,180</u>

21. Share capital and reserves

a) Share capital

	Dec-20	Dec-19
	Frw'000	Frw'000
Balance at 01 January	9,592,677	8,947,777
Increase in share capital	<u>1,420,000</u>	<u>644,900</u>
	<u>11,012,677</u>	<u>9,592,677</u>

During the year, a total of 14,200 shares were issued at their par value of Frw 100,000 each. Therefore, the nominal value of those shares amounted to Frw 1,420,000,000.

b) Share premium

During the year, shareholder bought 14,200 shares at a price of Frw 1,420,000,000 given the par value of Frw 100,000 per share. Nevertheless, the net cash received by the bank amounted to Frw 1,420,071,590. Hence, the difference between par value and cash received totalling Frw 71,590 was credited to share premium.

22. Related parties and related party transactions

a) Key management personnel compensation

	Dec-20	Dec-19
	Frw'000	Frw'000
Salaries and wages	301,126	367,169
Post-employment benefits	14,481	17,097
Contributions to maternity leave	<u>869</u>	<u>1,026</u>
	<u>316,475</u>	<u>385,292</u>

Our Risks Management

To augment the understanding of particular sources of risk, their possible consequences, and the practical approaches to managing them, it is important to have them adequately categorized.

Urwego Bank, as is with other financial institutions, generates most of its revenue by recognising that it is faced with various forms of risk i.e. Strategic risk, Credit risk, Operational risk, Liquidity risk, Country risk, Market risk, Compliance risk and so on. Effective management of these risks is therefore decisive in the Bank's profitability and long-term survival.

Each risk category and sub-risk category are assessed annually to measure both inherent and residual risk levels to ensure that their likelihood and impact ratings remain within Management's target and Risk Appetite limits. Annual risk assessment is conducted by the Risk Management, Internal Audit and Senior Management team.

Each of the various categories of risk identified above is a vulnerability point for Urwego Bank, it is the responsibility of the Board and Management to assess the levels of risk exposure, prioritize areas of greatest vulnerability, and to ensure that proper controls are in place to minimize risk exposure.

Strategic Risk Management

Strategic risk is the risk that occurs due to inaccurate decision-making and/or implementation of strategic decisions as well as failure in the anticipation of business environment changes.

1. Adequacy of policies, procedures, and Limits

The Bank has policies and procedures governing the formulation and preparation of the Business Plan including analysis regarding the strategic direction and key activities to support the implementation of strategies taken.

2. Adequacy of Process Identification, Measurement, Monitoring, Risk Control, and Systems Information Risk Management

Urwego Management team, through its corporate strategy, ensures an adequate process of identification, measurement, monitoring and controlling strategic risk by conducting a strategic review on a quarterly basis including the Bank's financial performance compared to the microfinance banking industry and ongoing business plan. This strategic risk review is part of the Bank's overall risk profile review process. The Bank closely follows implementation of strategic goals to curb any drift and take corrective measures on time as follows:

- Monthly strategic goals implementation report by CEO to Board Executive Committee

- Quarterly strategic goals implementation report by each department to Board of Directors

Comprehensive Internal Control System

Urwego has an internal control system for strategic risk management that periodically monitors the quantitative and qualitative performance.

Credit Risk Management

Credit risk is the likelihood that a debtor or borrower is unwilling or unable to pay both principal and interest according to the terms specified in the credit agreement resulting in economic loss.

Urwego's credit risk management aims at preserving the high credit quality of the Bank's portfolios and thereby protecting the Bank's short- and long-term viability. The Bank's credit risk management builds on the principles of (1) appropriate risk diversification within the scope of the mission; (2) thorough risk assessment at the credit appraisal stage; (3) risk-based pricing and risk mitigation; (4) continuous risk portfolio early monitoring to minimize losses; (5) avoidance of undesirable risks to the extent possible.

Key risk indicators monitored are, among others, the development in risk class aging distribution in the Bank's loan portfolios.

1. Adequacy of Policies, Procedures, and Setting of Limits

In preparing the credit risk management framework, the Management team established credit policies as a guidance for credit process implementation and these policies are approved annually and reviewed periodically, especially if there are changes in economic conditions, government regulations and in the business environment.

The Bank also establishes limits to ensure that the credit risk exposure is in accordance with the Bank's risk appetite. These would include, among others, a limit on the authority to make credit decisions that are adjusted to the competence of the decision maker and the level of risk and considering that there is no conflict of interest in the process of loans to customers. The determination of the Legal Lending Limit is in accordance with the Central Bank regulations.

2. Adequacy of Process Identification, Measurement, Monitoring, and Risk Control, and Risk Management Information Systems

- The Implementation of the Credit Risk framework in Urwego Bank is conducted through a phased integrated process and consists of the Identification, Measurement, Monitoring, and the Control/Mitigation of risk.
- The identification of credit risk is the result of the study on the characteristics of credit risk inherent in the functional activity of credit and treasury, including credit

concentration risk.

- The Credit risk measurement system considers product characteristics, duration, assurance aspects, potential defaults, and the ability of the Bank to absorb potential failure.
- The Bank monitors the actual credit risk exposure compared to the credit risk limit, the management of problem loans, and the conformity between policy and implementation of credit risk management.

3. Comprehensive Internal Control System

- The Bank has a Management Credit Committee (MCC) that review and approve loans from a preset threshold. Moreover, MCC reviews and approves restructured loans.
- Business managers and the various levels of Credit Policy Committees are responsible for identifying and tracking trends and concentrations of risk within the portfolios.
- Sales Team and Branch Leaders are responsible for ensuring that all customers are allocated, for reporting purposes, to the appropriate product code and industry sector.

4. Approach for forming the Allowance for impairment losses

The Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired for impairment's allowance and calculated using an individual and collective approach. The Bank's policy is to maintain at least 100% of the required loan loss reserve level for impaired loans as stipulated in the loan loss provisioning and write-off policies. The Bank's provisioning policy is aligned to BNR regulation and IFRS 9 requirements.

Market Risk Management

Definition and sources of risk:

The Bank defines market risk as the risk of valuation loss or reduction in expected earnings stemming from adverse fluctuations in exchange rates, interest rates, price changes in the market. The major types of market risks faced by the bank include among others the following:

- **Interest-rate risk:** this is the risk resulting from variations in market interest rates.
- **Currency risk or foreign exchange rate risk:** this is the risk resulting from variations in foreign-currency exchange rates.

Overview of interest rate risks

1. Adequacy of Policies, Procedures and Limits

The Bank controls interest rate by measuring the relationship between the cost of funds and the rates charged to borrowers and profit margin. Urwego's ability to adjust interest rates on its loans

is determined by the degree to which liabilities are used to fund assets within the portfolio resulting in earnings growth.

2. Adequacy of Identification Process, Measurement, Monitoring, Risk Control, and Systems Information Risk Management

Urwego measures and monitors interest rate risk by applying the following:

- Assessing the amount of funds at risk for a given shift in interest rates.
- Evaluating the timing of the cash flow changes given a particular interest rate shift.
- Notwithstanding the current portfolio profile, Urwego determines the gap between rate-sensitive assets and rate-sensitive liabilities in specific repricing schedules (gap analysis) on a monthly basis. This mechanism shall enable the identification of the timing of cash flow shifts.
- The key measurement of interest rate risk and a monitoring indicator of this risk is the net interest margin, or the spread. Urwego on a monthly basis monitors this ratio, which is calculated as the income remaining to the institution after interest is paid on all liabilities and compare the result with either total assets or the performing assets of Urwego.

3. Interest rate risk management guidelines.

- Urwego has adopted re-pricing positions, which lock in (hedge) Urwego's net interest income to meet a constant revenue or rate of return target, irrespective of changes in interest rates.
- This strategy stabilizes Urwego's earnings, makes its business less risky, and thereby reduces its need for economic capital and hence its required rate of return on equity.
- All interest rate risk taking is centralized in a dedicated treasury department by means of a common funding pool. The treasury department in turn follows the policy guidelines laid down by the Assets and Liabilities Committee (ALCO).

Overview of foreign exchange risk

The Bank protects itself against the risk of exchange rate losses. The bank's operating principle is to hedge foreign exchange risk. Investments in assets held for liquidity purposes are made in the primary lending currencies. As a rule, the Bank does not hedge its future net interest margin against movements in foreign exchange rates.

In compliance with the regulatory requirement, limits for acceptable foreign exchange risk are kept low compared to the Bank's equity. Limits have been set to restrict the overnight open positions, i.e. the net nominal value of assets and liabilities in each foreign currency.

4. Comprehensive Internal control system

The Internal Control System is maintained through policy and strategic adjustments associated with the Asset Liability Management (ALM) processes and committee.

Liquidity Risk Management

Definition and sources of risk

The Bank defines liquidity risk as a risk from an increase in the funding gap or its inability to meet payment obligations at maturity, including liquidation of customer deposits.

Urwego ensures and maintains capacity to meet its commitments, repayments, and withdrawals as they fall due in terms of time, place and in the required currency. These obligations mainly comprise deposits at sight, or short notice, term deposits, and commitments to lenders.

Urwego's treasury management takes a more comprehensive view; that liquidity risk has its sources on both sides of the balance sheet, and that management of the risk will address normal as well as stressed conditions.

1. Adequacy of Policies, Procedures and Establishing Limits

The Bank's policy to control liquidity risk has been adjusted to fit with the mission, business strategy, capital adequacy, human resource management and the Risk Appetite Statement (RAS).

The Bank's Internal Liquidity Adequacy Assessment Policy (ILAAP) establishes a robust liquidity risk management that ensures it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets, to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

All business units that conduct activities having an impact on liquidity are aware of the liquidity strategy and operate under the approved policies, procedures, and limits.

Senior Management and appropriate personnel shall have a thorough understanding of how other risks impact the Bank's overall liquidity strategy.

2. Liquidity Risk Management

Key objectives for the Bank's liquidity risk management are to ensure that the liquidity position is strong enough to:

- Enable the Bank to carry out its core activities for a defined period of time under stressed market conditions without access to new funding;
- Fulfil the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements as specified in the Internal Liquidity Adequacy Assessment Process (ILAAP).

- To furnish guidance in maintaining an investment portfolio, this, along with other sound assets, provides earnings and sufficient liquidity to ensure a reasonable degree of flexibility in the bank's operation.

3. Adequacy of Process Identification, Measurement, Monitoring, and Risk Control

On monthly basis, Urwego performs a liquidity gap analysis to determine the extent of mismatches in the various maturity brackets of the entire portfolio. Coupled with this analysis, on a daily basis, treasury assesses the net cash flows of the entire branch network by using its MIS to monitor compliance with forecasted figures and Urwego's established insurable cash holdings. Budget variances in terms of expenditure patterns are critically analysed and reviewed for compliance by the Director of Finance.

Urwego carries out a monthly stress test on its capacity to withstand a run on its deposits for a period not less than 3 days. The assumptions for these tests are explained in detail in Urwego's Asset and Liability Management (ALM) policy and procedures manual.

The Urwego Board of Directors has established a quantitative liquidity Risk Appetite Statement and the ratios are measured against actual performance on a monthly basis and reported to the Board Risk Committee on a quarterly basis.

Liquidity early warning indicators

To assess whether a potential liquidity problem may be developing, Urwego gives regard to various indicators including but not limited to:

- Deteriorating asset quality;
- Excessive concentrations on certain assets and funding sources;
- Decline in earnings and interest margins;
- Increase in overall funding costs;
- Rapid asset growth being funded by volatile wholesale liabilities;
- Worsening cash-flow positions as evidenced by widening negative maturity mismatches, especially in the short-term time bands; and
- Increased borrowings in interbank market and excessive discounting of Treasury bills.

Operational Risk Management

Definitions and sources of risk.

The operational risk results from inadequate or failed internal processes, people or systems or from external events. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the Bank.

It also includes exposure to loss resulting from the faulty operation of a manual or automatic system to process, produce, or analyse operations and transactions within the periods allowed and with the intended security.

At Urwego managing operational risk is an important feature of the overall Risk Management Program. The most important types of operational risk arise from failure in people and systems. Such breakdowns can often lead to financial losses through error, fraud, or failure to perform in a timely manner and cause the interests/mission of the Bank to be compromised.

The objective of operational risk management at Urwego includes but is not limited to:

- implementing and enforcing an appropriate framework for identification, assessment, monitoring and reporting of operational risks.
- detecting critical risk areas or groups of operations with an increased risk level;
- understanding what drives it;
- developing response actions and if necessary allocate capital to mitigate the risk; and
- identifying trends internally and externally that would help predicting it.

Types of Operational Risk Relevant to Urwego Bank:

Operational risk event types having the potential to result in substantial losses include:

- Internal fraud: for example, intentional misreporting of financial positions and/or performance, employee theft, etc.
- External fraud: for example, robbery, forgery, cheque kiting, and damage from computer hacking.
- Disregard of employment practices and workplace safety
- Disregard of Bank policies, strategies, guidelines, rules and regulations, as well as inappropriate or ineffective use of existing control mechanisms by Bank personnel in relation to a particular client or attempts to create “shortcuts” in order to advance personal agendas.
- Disregard of clients, products, and business practices. For example, fiduciary breaches, misuse of confidential customer information, improper trading activities on the Bank’s account, money laundering, and sale of unauthorized products.

- Damage to physical assets. For example, terrorism, damage, earthquakes, fires and floods.
- Business disruption and system failures. For example, hardware and software failures, telecommunication problems, and utility outages.
- Lack of execution, delivery, and process management. For example, data entry errors, collateral management failures, incomplete legal documentation, unapproved access given to client accounts, non-client counterparty mis-performance, and vendor disputes etc.

The fundamental principles of operational risk management at Urwego are:

- The ultimate responsibility for operational risk management rests with the Board and the level of risk that the Bank accepts; together with the basis for managing those risks shall be driven from the “top down”.
- Urwego has operational policies and procedures that clearly define the way in which all aspects of operational risk are managed. The policies and procedures shall be documented, approved by the Board and Senior Management and then communicated to all staff.
- The Board and Senior Management ensure that at all times there is an effective and integrated operational risk management framework. This incorporates the organizational structure with clearly defined roles and responsibilities for all aspects of operational risk management as well as appropriate tools that support the identification, measurement, monitoring and control of the key risks.
- Line management establishes processes for the identification, measurement, monitoring, controlling and reporting of operational risks that are appropriate to the needs of the business unit.
- Urwego always maintains a robust Management Information System for identification, measurement, monitoring and controlling operational risk. Reports shall be accurate and generated in a timely manner for Urwego’s Board of Directors and Senior Management.
- Urwego develops strong internal control processes and procedures including a system of documented approvals and authorisations to ensure accountability and segregation of duties. Urwego also has a system in place to ensure compliance with the documented set of internal policies.
- In all its branches, Urwego acquired power generators that automatically turn on whenever power outage occurs. This allows for operations continuity and prevents loss or alteration of data due to outages occurring in branch or head office.
- The Bank has anti-virus, anti-spyware, and firewalls to safeguard against external cyberattacks. Moreover, its staff are regularly given trainings on cyber security.

1. Policies, Procedures and Establishment of Limits

The bank has policies and procedures to manage operational risks including, among others, Operational Risk Management Policies, Management of Business Continuity Policies, Operations

Policies, Human Resource Policies, and Information & Communications Technologies (ICT) policies, as well as other relevant procedures.

The establishment of operational risk limits to limit the maximum potential losses that can be absorbed by the Bank is made with reference to the operational risk exposure, past losses, operational risk tolerance, as well as analysis of operational risk occurrence and its impact on the future (future looking risks).

2. Adequacy of Process Identification, Measurement, Monitoring, and Risk Control, and Systems Information Risk Management

Risk identification is performed through the registration process of all potential operational risks based on processes, products, events risk, and asset information held by the Bank. In addition, the identification of risk goes through the operational risk assessment process on the product, services/process proposed by the business units and support functions.

The risk measurement process involves periodical self-assessment activities, risk/loss event database management and the calculation of capital adequacy for operational risk.

The department concerned and Risk Management Unit do the process of risk management by adding effective control mechanisms and providing insurance sufficient to minimize risk for the Bank.

Risk Management information system is made to present accurate, timely and up to date information to support management functions to facilitate the planning process and decision-making.

3. The Comprehensive Internal Control System

The internal audit team conducts periodic reviews of the procedures, documentation, data processing systems, contingency plans, as well as contracts and agreements between the Bank and other parties, assurance process of all functional activities. Moreover, internal compliance teams conduct follow-ups of the implementation of finding raised through internal or external audits as well as inspections by regulators. The operational risk management process is structured as follow:

- At the operational level is a layered control system (three lines of defense), in which the Internal Control System (Quality Assurance/Internal Compliance) is instrumental in helping the Risk Taking Units (RTU) or Risk Owner in the enforcement of daily management operational risks.
- In the next layer of control, the Risk Management Unit together with Compliance Unit is instrumental in the definition, refinement, and maintenance of the risk framework operations to ensure adequate risk mitigation policy and procedures, as well as act as the coordinator/facilitator of the activities of operational risk management.

- Next, the Internal Auditor independently ensures that the residual risks are still within acceptable limits (risk appetite).

The alignment of work between units related to the Bank's internal control is sustained through periodic forums and routine facilitation.

4. Business Continuity Management

Business Continuity Risk & Disaster Recovery risk is the risk that the Bank or company cannot maintain a state of continued, uninterrupted operations of a business when its primary location of business becomes inoperable due to unforeseen natural and man-made disaster or loss events. Disaster Recovery risk is the risk to the Bank when the primary location of the technology assets that enables continuity of business becomes inoperable.

Urwego has developed guidelines for business continuity whereby a comprehensive effort to anticipate operational risks which may occur in extreme/critical situations such as floods and earthquakes and also other factors such as fire, system/power interruptions and unfavorable business environment so that continuity of service to customers can be assured.

Urwego Management team established a Disaster Recovery Centre and installed a Data Recovery (DR) Server in its Muhanga branch which is located 45KM from the Head Office/Primary. Core business data is backed up on a daily basis for business continuity in case the Primary Server fails.

Operational Business Continuity Procedures and processes are in place and reviewed at least annually to incorporate new business changes.

Legal and Compliance Risk Management

1. Definition and sources of risks

Legal and Compliance Risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer because of its failure to comply with laws, regulations, prudential guidelines, supervisory recommendations and directives, rules, related self-regulatory standards and codes of conduct applicable to its bank activities.

Urwego is committed to complying with national legislations, rules and standards issued by legislators and supervisors, market conventions, codes of practice promoted by the banking industry associations and internal codes of conduct applicable to staff members.

Urwego promotes at all times a corporate culture that emphasizes standards of honesty and integrity and in which the Board and Senior Management lead by example. Urwego's code of conduct shall at all times specify the dos and don'ts governing all staff activities and staff must

always consider the impact of their actions on Urwego's shareholders, customers, employees and the markets in order to avoid significant reputational risk and regulatory penalties.

2. Compliance risk management framework

The risk management framework for compliance risk includes Board and Senior Management oversight, policies and procedures, Management Information System (MIS) and an independent review.

The Urwego Board of Directors oversees the management of the Bank's compliance risk. It approves the compliance policy, including a formal document establishing a permanent and effective compliance function. The Board regularly assesses the extent to which the Bank is managing its compliance risk.

Senior Management is responsible for the effective management of the Bank's compliance risk. As such, Senior Management establishes written compliance policy that contains the basic principles to be followed by management and staff and explains the main processes by which compliance risks are to be identified and managed at all levels of the bank.

Urwego's compliance function falls under two categories i.e., External and Internal under the Risk Management department. The External Compliance function focuses on day to-day compliance with external rules, laws, and regulations. Whereas, Internal Compliance Function focuses on how staff comply with policies, procedures and processes put in place. It also evaluates effectiveness and efficiency of the existing controls for mitigating risks within established limits.

3. Policies and Procedures

The Senior Management has put in place policies, processes, and procedures to control and mitigate compliance and legal risks. The procedures and processes define the compliance function as an independent function, responsibilities of compliance staff and details compliance officer's communication methods with management and staff in the various business units.

Compliance risk management policy is part of the overall risk management policy, which precisely determines all important processes and procedures in minimizing the Bank's compliance risk exposure. Compliance policies also include an anti-money laundering (AML) policy and Combating the Financing of Terrorism (CFT) policy for Urwego Bank.

The Urwego compliance unit assesses compliance risk by using of performance indicators against set limits to enhance controls, provides guidelines on how to identify deficiencies, and formulates proposals for amendments. Compliance tracking system enables the management team to enforce compliance disciplines across the Bank.

Country and Transfer Risk Management

1. Definition and sources of risks

Country Risk: Country risk is the risk that economic, social, and political conditions and events in a foreign country will adversely affect the Bank's financial condition. For example, financial factors such as currency controls, devaluation or regulatory changes, or stability factors such as mass riots, civil war and other potential events that contribute to institutions' operational risks.

In addition to the negative effect that deteriorating economic conditions and political and social unrest may have on the rate of default by obligors, country risk also includes the possibility of nationalization or expropriation of assets, government repudiation of external indebtedness, sudden changes in exchange control policies, and currency depreciation or devaluation.

Transfer Risk: Transfer risk is the risk that a borrower may not be able to secure foreign exchange to service its external obligations. Where a country suffers economic, political, or social problems, leading to drainage in its foreign currency reserves, the borrowers in that country may not be able to convert their funds from local currency into foreign currency to repay their external obligations.

As the definitions above, country and transfer risks are the lowest risks that Urwego can face today and in the future due to its mission statement, which guides the nature of business the Bank engages in.

When an institution engages in international operations (lending, deposits, or outsourcing), establishes a subsidiary or a branch in a foreign country or incurs a cross-border exposure, it is exposed to not only customary credit risk but also country risk. Country risk is the primary factor that differentiates international lending from domestic lending. It encompasses all the uncertainties arising from the economic, social, and political conditions of a country that may cause borrowers in that country to be unable or unwilling to fulfil their external obligations.

- Country risk may arise from deteriorating economic conditions, political and social upheavals, nationalization or expropriation of assets, government repudiation of external indebtedness, exchange controls and currency devaluation.
- Country risk is a special form of risk over which a bank can exercise little direct influence. Institutions should therefore ensure that they have adequate systems and expertise to manage their cross-border exposures and avoid taking undue concentration risks on such exposures.

2. Board and Senior Management Oversight

Urwego Board and Senior Management are responsible for defining the nature and the level of business the bank is supposed to undertake to ensure that the bank's business operations remain true to the mission statement.

3. Policies and Procedures:

Urwego lending product procedures and policies are developed and approved by the Board in order to prevent any deviation that can attract country and transfer risks. Credit facilities are offered to Rwandans only.

Technology Risk Management

1. Definition and purpose

Technology risk has been defined as the risk of loss arising from the potential inadequate information system or technology failures.

The purpose of Technology (Information and Communication Technology) risk management is to assist Urwego to establish an effective mechanism that can identify, measure, monitor, and control the risks inherent in the Bank's ICT systems, ensure data integrity, availability, confidentiality, and consistency and provide the relevant early warning mechanism.

2. Board of Directors Oversight

1. Role and Responsibilities of Board of Directors are but not limited to:

- Urwego Board of Directors ensures that IT governance structure and risk management framework suits business needs and risk tolerance.
- Understands IT risk and oversees the design and implementation of appropriate internal controls and risk management practices.
- Approves IT plans, policies, major expenditures and periodically review the alignment of IT strategy within the overall business strategies of the bank.
- Sets high ethical and integrity standards and establishes a culture within the bank that emphasizes and demonstrates to all levels of personnel the importance of IT risk management.
- Ensures that effective audits and cybersecurity risk assessments are carried out in alignment with BNR regulation by an independent and qualified personnel or company and comprehensive reports are submitted to the Board IT & Business Committee.

2. Senior Management

The following are key responsibilities of Senior Management concerning Technology risk management:

- Ensure that all employees fully understand and adhere to the ICT policy and procedure approved by the Board of Directors and the Senior Management and are provided with pertinent training.

- Ensure customer information, financial information, product information and core banking system of the Bank are held in a secure environment.
- Report in a timely manner to BNR any significant adverse incidents of information and communication systems or unexpected events, and how they have been handled;
- Cooperate with the National Bank of Rwanda in the surveillance of the risk management of information systems, ensure that supervisory opinions are followed up, and performing other related Technology risk management tasks.

3. IT Department

The following are the responsibilities of the IT Department under the supervision of the Chief Operating Officer but not limited to:

- Play a direct role in key business development decisions involving the use of ICT in the Bank.
- Ensure that information systems meet the needs of the Bank's operations, and the IT strategies, in particular information system development strategies, comply with the overall business strategies and ICT risk management policies.
- Establish an effective and efficient IT organization to carry out the IT functions. These include the IT budget and expenditure, IT risk management, ICT policies, standards, and procedures, IT internal controls, professional development, IT project initiatives, IT project management, information system maintenance and upgrade, IT operations, IT infrastructure, information security, disaster recovery plan (DRP), IT outsourcing, and information system retirement.
- Ensure the effectiveness of ICT risk management throughout the Bank including all branches.
- Organize professional trainings to ensure adequate technical proficiency of IT staff.

4. Intellectual Proprietary Rights

Urwego Bank has policies and procedures to:

- Ensure the utilization of only genuine and licensed software in order to avoid the violation of the law regarding intellectual properties;
- Ensure purchase of legitimate software and hardware;
- Prevent the use of reproduced software, and
- Protect the proprietary rights of ICT products developed by the institution and ensure that these are fully understood and complied with by all employees.

5. Technology Risk Management Framework

Urwego has a comprehensive set of Technology risk management policies that include the following areas:

- Information security classification,
- System development, testing and maintenance,
- IT operation and maintenance,
- Access control,
- Physical security,
- Change controls,
- Personnel security,
- Business Continuity Planning and Crisis and Emergency Management procedure, and
- Management of technology service providers
- All the ICT control policies are reviewed annually or within a shorter period to accommodate changing operating environments and technologies.

Internal controls related to IT are structured to ensure that:

- Appropriate segregation of duties is monitored,
- Records are properly created, transmitted, and stored,
- Data is reliable and reports to Management and the Board of Directors is adequate,
- High-risk conditions, functions and activities are identified, and appropriate controls are put in place to mitigate risk exposure and monitoring is done.
- Training on ICT namely awareness on cyber security

6. Technology Risk Identification and Assessment

Risk identification entails the determination of threats and vulnerabilities to the Bank's IT environment, which comprises the internal and external networks, hardware, software, applications, systems interfaces, operations, and human elements.

Humans are significant sources of threats through deliberate acts or omissions which could inflict extensive harm to the Bank and its information systems. The Bank is vigilant in monitoring security threats such as those manifested in denial-of-service attacks, internal sabotage and malware infestation which could cause severe harm and disruption to the operations of the Bank with consequential losses for all parties affected.

The IT department vigilantly monitors these changing, growing risks as a crucial step in the risk containment exercise.

Both threat-sources and threats are identified by the IT department. Threats include the threat-source to ensure accurate assessment. Some common threat-sources include:

- **Natural Threats**—floods, earthquakes, hurricanes.
- **Human Threats**—threats caused by human beings, including both deliberate actions (network-based attacks, virus infection, unauthorized access), and unintentional (Inadvertent data entry errors).

- **Environmental Threats**—power failure, pollution, chemicals, water damage

Urwego conducts an annual comprehensive cybersecurity risk assessment through an independent company and the assessment includes the following areas: Governance, identification, detection, protection, response and recovery and testing.

Future Outlook and Prospects

Beyond Bank

Urwego Bank will likely be moved from the microfinance bank regulatory category to become a deposit-taking microfinance institution (DTMFI) in order to streamline BNR banking oversight. This change in category holds both risks and opportunities for the Bank, and election of a new category will be thoroughly assessed once the final DTMFI gazette is published mid-2021. However, Urwego has already begun to position itself with stakeholders as moving “Beyond Bank”. Beyond Bank: one family empowering the underserved, in a God-honoring and profitable way.

In 2021, Urwego will pivot back towards its original 5-year strategic plan. This plan, originally intended for 2020-2024, will now be implemented 2021-2025. Thus, the Objectives of (1) **Deepen Client Engagement**, (2) **Grow Profitably**, and (3) **Expand Frontiers** will guide Urwego towards the achievement of its 5-year strategic plan by 2025.

Deepen Client Engagement:

Urwego is aware of the stress created both by COVID-19 and digitization on client relationship “touch” points. Thus, a concerted effort to maintain or develop high impact “touch” points with clients that increase their level of service satisfaction and ultimately, transformation across the 4 domains (spiritual, material, social and personal) is a key objective over the next 5 years. If achieved, Urwego also believes this objective will support profitability through client retention and ensure the Bank holds together “high tech and high touch” in a way that supports *both* client transformation and digitization.

Grow Profitably:

In the immediate and short-term, Urwego must restore portfolio credit quality in order to achieve profitability. The current environment is one of complexity – some businesses are struggling or even collapsing as suppliers or end-markets change or close, while other businesses are hungry for additional capital to re-establish and grow their businesses. Urwego must prioritize credit quality

(delinquency management of existing loans and recovery of written-off loans), while continuing to disburse fresh capital to those businesses that need working capital to grow. The bank will target returning PAR 30 to under 5% before June 2021.

Urwego will continue to emphasize both credit quality and growth. Both objectives will be active and monitored simultaneously. The bank will target a portfolio of 16 billion by year-end 2021 with 15-20% growth rates year-over-year for 5-year strategic plan horizon. Projected growth is led by SME lending, a missional product that resources businesses creating value for underserved families and communities. However, a key aspect of growth is a continued focus on high-yield products, which are slower and harder to grow but an essential first step to provide formal financial services to underserved clients, most without collateral. These high yield loans provide an indispensable entry-point into the Urwego ladder of opportunity. Also, the high-yield interest supports the extensive sales staff structure maintained by Urwego to serve and train underserved clients. Urwego must ensure that group and MBL client growth remains robust in order to achieve profitability with its current operating structure.

Expand Frontiers:

In 2021 the Bank must complete a replacement and upgrade of its mHose channel. By August 2021, Urwego will have a replacement USSD solution as well a new client mobile application and a new agent mobile application. The client mobile application will allow the Bank to onramp a new set of clients onto the Bank's services and provide greater convenience for existing clients with smart phones. The agent mobile application will allow both premium agents and Urwego staff to open accounts in the field, expanding the reach of the bank far beyond the branch.

The underserved of Rwanda do not generally live near a bank branch. Urwego must press services outward to meet clients where they live and work. The Bank plans to add many new agents across Rwanda over the 5-year projection period, building a more strategic and convenient footprint to reach clients. Urwego will also invest in marketing and training to ensure existing clients and new clients understand the features and services available on mHose. The Bank must increase the number and types of transactions that clients complete in its ecosystem, deepening the banking relationship with clients so that they are using mHose for more than repaying their loan.

As over 80% of all transactions move out of branches and onto the Bank's digital channel in 2021, Urwego must continue to "right-size" and "right-price" its physical footprint. The Bank will continue to renegotiate all leases for price reductions. Space reductions and reconfigurations (such as moving sales officer working space and group meeting space out of prime retail locations) will be pursued if there is a net positive effect on profitability. Opex remains the key indicator for measuring if Urwego's operating expenses are "right-sized" compared to portfolio. Urwego will target an Opex of less than 36% by the end of 2021 and less than 25% by the end of the 5-year strategic planning period.

A mobile front-end for Urwego’s existing, web-based loan workflow management system (FLOW) must also be launched in 2021. FLOW mobile is scheduled for launch in May 2021 and will move loan administration onto a tablet managed by loan officers. This mobile front-end will improve the speed and convenience of loan processing for both clients and staff. FLOW mobile will allow Urwego to begin transitioning back-office positions to front-line sales positions, improving operating efficiency and growing revenue.

A Bright Future

Despite a very difficult 2020, Urwego is looking towards the future with optimism. We believe our strategy of client engagement, profitable growth, and digital expansion will result in growing profitability and client outreach in 2021 and into the future. We look forward to expanding financial inclusion in Rwanda and seeing positive transformation in the lives of each of our clients. Urwego, its Board of Directors, and its Shareholder remain committed to provide a ladder of opportunity to underserved communities in Rwanda, as we proclaim and live the Gospel of Jesus Christ. As we move towards a bright future, we look forward to demonstrating what it looks like to move successfully “Beyond Bank”: one family empowering the underserved, in a God-honoring and profitable way.