

NATIONAL BANK OF RWANDA  
ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS  
31 DECEMBER 2008

ERNST & YOUNG

NATIONAL BANK OF RWANDA  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 2008

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NATIONAL BANK OF RWANDA  
BANK INFORMATION  
YEAR ENDED 31 DECEMBER 2008

DIRECTORS

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

François KANIMBA	Governor and Chairman	- Appointed on 06 April 2002
Consolate RUSAGARA	Vice-Governor and member	- Appointed on 15 March 2001
		- Retired on 12 March 2008
Ephraim TURAHIRWA	Vice-Governor and member	- Appointed on 12 March 2008
Prosper MUSAFIRI	Member	- Appointed on 16 February 2005
Uzziel NDAGIJIMANA	Member	- Appointed on 23 January 2004
Victor SHINGIRO	Member	- Appointed on 23 January 2004
Cyrille NDENGEYINGOMA	Member	- Appointed on 16 February 2005

SENIOR MANAGEMENT TEAM

François KANIMBA	Governor
Ephraim TURAHIRWA	Vice-Governor
Thomas KIGABO	Chief Economist
Appollinaire MURASIRA	Director - Banking Operations
Vianney KAGABO	Director - International Operations
Philemon SAFARI	Director - Monetary and Financial Markets
Gakuba KABATI	Director - Accounting and Budget
Théobald NKURANGA	Director - Information Technology
Bernardin RUTAGARAMA	Acting Director - General Services
Angélique KANTENGWA	Director - Bank Supervision
Joy NTARE	Director - Supervision of Non-Bank financial institutions
Védaste HIMILI	Director - Internal Audit
Musoni RUTAYISIRE	Director - Research
Antoinette NYIRAHUKU	Director - Human Resources
Célestin SEKAGILIMANA	Director - Foreign Exchange Inspection and Balance of Payments
Alexis HABİYAMBERE	Director - Governor's Office
François Xavier RUTAGENGWA	Head of Legal Services
Juru RURANGANWA	Head of Medical Services
Bosco SEBABI	Head of Payment System

REGISTERED OFFICE

National Bank of Rwanda  
Avenue Paul VI  
P.O Box 531  
Kigali  
Rwanda

NATIONAL BANK OF RWANDA  
BANK INFORMATION (Continued)  
YEAR ENDED 31 DECEMBER 2008

BRANCHES

Southern Branch  
P.O Box 622  
Huye  
Rwanda

Eastern Branch  
P.O Box 14  
Rwamagana  
Rwanda

Nothern Branch  
P.O Box 127  
Musanze  
Rwanda

Western Branch  
P.O Box 462  
Rusizi  
Rwanda

AUDITORS

Ernst & Young  
Banque de Kigali Building  
Avenue de la Paix  
P.O Box 3638  
Kigali  
Rwanda

LAWYER

François Xavier RUTAGENGWA  
Avenue Paul VI  
P.O Box 531  
Kigali  
Rwanda

BANK SECRETARY

Alexis HABIYAMBERE  
Avenue Paul VI  
P.O Box 531  
Kigali  
Rwanda

NATIONAL BANK OF RWANDA  
DIRECTORS' REPORT  
YEAR ENDED 31 DECEMBER 2008

The directors submit their report together with the audited financial statements for the year ended 31 December 2008, which disclose the state of affairs of the Bank.

#### PRINCIPAL ACTIVITIES

The mission of the Bank is to formulate and implement monetary policy with a view to preserving the value of the Rwandan currency and to ensure its stability. To this end, the Bank exercises control of money supply and credit and ensures the good functioning of the money market, the foreign exchange market and, in general, that of the banking and financial system.

#### RESULTS

The results for the year are set out on page 6.

#### DIVIDEND

The board of directors recommends the payment of a dividend of Frw 1,248,885,009 (2007: Frw 4,864,415,000) to the Government of Rwanda.

#### DIRECTORS

The directors who served during the year are listed on page 1.

#### MANAGEMENT COMMITTEE

The members of the Management Committee who served during the year and to the date of this report were:

François KANIMBA	Governor and Chairman	- Appointed on 06 April 2002
Consolante RUSAGARA	Vice - Governor	- Retired on 12 March 2008
Ephrem TURAHIRWA	Vice - Governor	- Appointed on 12 March 2008

#### AUDIT COMMITTEE

The Bank's Audit Committee consists of:-

Manassé TWAHIRWA	Chairman	- Appointed on 03 August 2001
Gaston MPATSWE	Member	- Retired on 01 May 2007
Madeleine NIRERE	Member	- Appointed on 16 February 2005

#### AUDITORS

Ernst & Young have expressed their willingness to continue in office.

By order of the Board

Board Secretary

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NATIONAL BANK OF RWANDA  
STATEMENT OF DIRECTORS' RESPONSIBILITIES  
YEAR ENDED 31 DECEMBER 2008

Law No. 55/2007 of 30 November 2007 relating to statutes of the National Bank of Rwanda requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Bank keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of Law No. 55/2007 of 30 November 2007 relating to statutes of the National Bank of Rwanda. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Signed on behalf of the Board of Directors by: -

.....  
Governor

.....  
Vice Governor

.....2009

REPORT OF THE INDEPENDENT AUDITORS  
TO THE MINISTER OF FINANCE AND ECONOMIC PLANNING  
ON THE FINANCIAL STATEMENTS OF NATIONAL BANK OF RWANDA

Report on the financial statements

We have audited the accompanying financial statements of National Bank of Rwanda, set out on pages 6 to 37 which comprise the balance sheet as at 31 December 2008, income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Statutes of the National Bank of Rwanda. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on our professional judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Bank as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and Law No. 55/2007 of 30 November 2007 relating to Statutes of the National Bank of Rwanda.

Kigali

.....2009

NATIONAL BANK OF RWANDA  
INCOME STATEMENT  
YEAR ENDED 31 DECEMBER 2008

	Note	2008 Frw'000	2007 Frw'000
Interest income	3	10,421,207	14,245,245
Interest expenses	4	<u>(2,325,525)</u>	<u>(3,765,617)</u>
Net interest income		8,095,682	10,479,628
Commission and fees income	5	109,861	176,741
Gain on foreign currency trading	6	3,639,710	2,255,630
Other non interest income	7(a)	<u>2,835,378</u>	<u>3,873,989</u>
Net income before non interest expenses and foreign exchange revaluation gain/ (loss)		14,680,631	16,785,988
Non interest expenses	8(a)	(12,844,036)	(8,938,994)
Foreign exchange revaluation gain/ (loss)		<u>2,949,388</u>	<u>(693,443)</u>
Net profit for the year		<u>4,785,983</u>	<u>7,153,551</u>

NATIONAL BANK OF RWANDA  
BALANCE SHEET  
AT 31 DECEMBER 2008

ASSETS	Note	2008 Frw '000	2007 Frw '000
Cash balances		662,091	586,156
Foreign assets	9	333,892,454	300,906,519
International Monetary Fund Quota	10	69,291,925	68,809,170
Due from Government of Rwanda	11	39,737,444	41,266,354
Loans and advances to Banks and other financial institutions	12	2,863,804	2,560,523
Staff loans	13	3,687,280	3,458,551
Investment in associate	14	219,374	-
Investment property	15	166,315	197,664
Deferred costs	16	-	992,804
Other assets	17	890,414	1,453,033
Property and equipment	18	3,548,441	2,045,793
Intangible assets	19	<u>10,885</u>	<u>12,822</u>
<b>TOTAL ASSETS</b>		<b><u>454,970,427</u></b>	<b><u>422,289,389</u></b>
<b>LIABILITIES</b>			
Currency in circulation	20	88,515,442	72,758,482
Government deposits	21	201,983,950	141,764,406
Due to banks and other financial institutions	22	43,158,184	80,900,589
Amounts due to the International Monetary Fund	23	87,587,507	85,065,046
Foreign liabilities	24	1,340,292	14,338,395
Other liabilities	25	<u>6,527,188</u>	<u>4,804,635</u>
<b>TOTAL LIABILITIES</b>		<b><u>429,112,563</u></b>	<b><u>399,631,553</u></b>
<b>EQUITY</b>			
Share capital	26	7,000,000	2,000,000
General reserve fund	27	8,187,055	12,819,735
Other reserves	28	9,421,924	2,973,686
Proposed dividends	29	<u>1,248,885</u>	<u>4,864,415</u>
<b>TOTAL EQUITY</b>		<b><u>25,857,864</u></b>	<b><u>22,657,836</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>454,970,427</u></b>	<b><u>422,289,389</u></b>

The financial statements were approved by the Board of Directors on .....2009  
and signed on its behalf by:

.....) Governor  
 )  
 )  
 )  
 .....) Vice Governor

NATIONAL BANK OF RWANDA  
STATEMENT OF CHANGES IN EQUITY  
YEAR ENDED 31 DECEMBER 2008

	Share capital Frw'000	General reserves fund Frw'000	Other reserves Frw'000	Proposed dividends Frw'000	Total Frw'000
At 01 January 2007	2,000,000	10,634,975	2,978,608	1,987,038	17,600,621
Net profit for the year	-	7,153,551	-	-	7,153,551
Dividends:					
-Final proposed for 2007	-	(4,864,415)	-	4,864,415	-
-Dividends for 2006 paid	-	-	-	(1,987,038)	(1,987,038)
Transfer to reserves	-	(858,426)	858,426	-	-
Gain on revaluation of foreign assets	-	-	22,050	-	22,050
Transfer of reserves on foreign exchange fluctuations	-	754,050	(754,050)	-	-
Write back of currency printing costs	-	-	(131,348)	-	(131,348)
At 31 December 2007	<u>2,000,000</u>	<u>12,819,735</u>	<u>2,973,686</u>	<u>4,864,415</u>	<u>22,657,836</u>
At 01 January 2008	2,000,000	12,819,735	2,973,686	4,864,415	22,657,836
Reclassification to share capital	5,000,000	(5,000,000)	-	-	-
Land revaluation reserve	-	-	1,475,545	-	1,475,545
Net profit for the year	-	4,785,983	-	-	4,785,983
Dividends:					
-Final proposed for 2008	-	(1,248,885)	-	1,248,885	-
-Dividends for 2007 paid	-	-	-	(4,864,415)	(4,864,415)
Transfer to other reserves	-	(220,390)	220,390	-	-
Gain on revaluation of foreign assets	-	-	1,802,915	-	1,802,915
Transfer of reserves on foreign exchange fluctuations	-	(2,949,388)	2,949,388	-	-
At 31 December 2008	<u>7,000,000</u>	<u>8,187,055</u>	<u>9,421,924</u>	<u>1,248,885</u>	<u>25,857,864</u>

NATIONAL BANK OF RWANDA  
CASH FLOW STATEMENT  
YEAR ENDED 31 DECEMBER 2008

	Note	2008 Frw'000	2007 Frw'000
<b>OPERATING ACTIVITIES</b>			
Net cash from operating activities	30	<u>19,512,405</u>	<u>49,017,215</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(598,486)	(774,297)
Purchase of intangible assets		(10,898)	-
Proceeds from sale of property and equipment		<u>316,915</u>	<u>16,469</u>
Net cash used in investing activities		<u>(292,469)</u>	<u>(757,828)</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(4,864,415)	(1,987,038)
Currency in circulation		<u>15,756,960</u>	<u>14,321,844</u>
Net cash from financing activities		<u>10,892,545</u>	<u>12,334,806</u>
Net increase in cash and cash equivalents		30,112,481	60,594,193
Cash and cash equivalents at the beginning of the year		301,492,675	241,591,925
Foreign exchange revaluation gain/ (losses)		<u>2,949,388</u>	<u>(693,443)</u>
Cash and cash equivalents at the end of the year	31	<u><u>334,554,544</u></u>	<u><u>301,492,675</u></u>

NATIONAL BANK OF RWANDA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 2008

1. CORPORATE INFORMATION

The National Bank of Rwanda (BNR) is governed under Law No. 55/2007 of 30 November 2007. The Bank's responsibilities are focused towards achieving the following objectives:

- Formulate and implement monetary policy with an aim to maintain the value and stability of the Rwandan currency.
- Regulate the foreign exchange market and implement appropriate policies to ensure external stability of the currency.
- Supervise the banking sector with an aim to maintaining stability and confidence in the financial sector.
- Carry out on behalf of the government, the exclusive role of issuing currency.
- Banker to government.

The Bank's share capital of Frw 7 billion is fully subscribed by the Rwandan Government. It may be increased by either incorporating the reserves on the decision of the Board of Directors ratified by the presidential decree or by new allocation of the Government of Rwanda. On 28 June 2008, the board of directors increased share capital from Frw 2 billion to Frw 7 billion. The increment of Frw 5 billion was transferred from general reserves.

In accordance with Law No. 55/2007 of 30 November 2007, National Bank of Rwanda's net profit is appropriated as follows:

- 20% to the General Reserve Fund.
- After all appropriations earmarked to other reserves deemed necessary by the Board of Directors mainly to special reserves the balance is paid to the Public Treasury as dividend.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below:

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Law no 55/2007 relating to Statutes of the National Bank of Rwanda.

The financial statements have been prepared under the historical cost basis, except for measurement at fair value and impairment of certain financial assets. The financial statements are presented in Rwanda Francs (Frw), and all values are rounded to the nearest thousand (Frw '000) except where otherwise indicated.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

b) New accounting standards, amendments and interpretations

In 2008, several new and revised standards, amendments and interpretations to published standards became effective and have been adopted by the Bank, where relevant to its operations.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008, but they are not relevant to the Bank's operations:

- IASB39 and IFRS 7 - Reclassification of financial assets,
- IFRIC 11, 'IFRS 2 - 'Group and treasury share transactions'.
- IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction';
- IFRIC 12, 'Service concession arrangements' and
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.

The Bank has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective, for accounting periods beginning on 1 January 2008. The application of these standards, amendments and interpretations will not have material impact on the Bank's financial statements in the period of initial application.

- IAS 1R, 'Presentation of financial statements (effective from 1 January 2009)'
- IAS 27, 'Amendment, Consolidated and separate financial statements (effective from 1 January 2009)'
- IAS 32 and IAS 1, 'Amendment, Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009)',
- IAS 23, Amendment, 'Borrowing costs (effective from 1 January 2009)';
- '2008 annual improvement to IFRS (effective from 1 January 2009)',
- IFRS 1 and IAS 27, 'Amendment, 'Cost of an investment in a subsidiary, jointly controlled entity or associate (effective from 1 January 2009)'
- IFRS 2, 'Amendment, vesting conditions and cancellations (effective from 1 January 2009)'
- IFRS 3, 'Business combinations (effective from 1 January 2009)'
- IFRS 8, 'Operating segments (effective from 1 January 2009)',
- IFRIC 13, 'Customer loyalty programmes (effective from 1 July 2008)' and,
- ; IFRIC 15, 'Agreements for the construction of real estate'.

c) Significant accounting judgements and estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies, reported values of assets, liabilities, disclosures, income and expenses during the reporting period. The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making judgements while acknowledging that actual results may ultimately differ from these estimates.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

c) Significant accounting judgements and estimates (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and the future periods if the revision affects both current and future periods. The most significant use of judgements and estimates are as follows:-

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities of the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques which are based on some assumptions.

Impairment of losses on loans and advances

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required.

Impairment of equity investment

The Bank's investment in equity investment is reviewed for significant or prolonged decline in the fair value below cost or where objective evidence of impairment exists.

d) Revenue and expenses recognition

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income and expense is recorded at the effective interest rate based on actual purchase price.

Fee and commission income

The Bank earns fee and commission income from a range of services it provides to its customers. Fee and commission income for the provision of services is recognized on accrual basis.

Dividend income and expense

Revenue is recognised when the Bank's right to receive the payment is established. Dividend payable is recognised as an appropriation of profit at the end of the year.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

e) Property and equipment

Recognition and initial measurement

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost includes expenditures that are directly attributable to the acquisition cost of the asset. The cost of self constructed assets includes the cost of materials, direct labour and any costs that are directly attributable to bringing an asset to its working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in the income statement.

Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is possible that the future economic benefits embodied in the component of the item of property, plant and equipment will flow to the Bank. All other expenditures are recognised in the income statement as expenses as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of a property, plant and equipment. Assets are depreciated from the date of acquisition, or in respect of self constructed assets, from the time an asset is completed and ready for service. Freehold land, projects in progress and inventories held for capital projects are not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Building	5-10%
Computer equipment	33.3%
Machines	20%
Motor vehicles	25%
Furniture, fittings and office equipment	10%
Security equipment	10%

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in income statement as other income or other expense in the year the asset is derecognized.

f) Intangible assets and amortisation

Intangible assets acquired separately are measured on initial recognition at costs. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software	33.3%
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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

g) Consumable stores inventory

Consumable stores inventory are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Provisions are made for all anticipated inventory losses, impairment and obsolescence.

h) Currency printing costs

Currency note printing and coin minting costs are expensed in the income statement in the period in which they are incurred.

i) Investment in associate

The Bank investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the associate. Losses in excess of the cost of the investment in associate are recognized when the Bank has incurred obligations on its behalf. The income statement reflects the Bank's share of the results of operations of the associate.

j) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

k) Cash and cash equivalents

Cash comprises of foreign currency held in the Bank and demand deposits held with foreign banks. Cash equivalents comprise of short term highly liquid investments and term deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk in changes in value. The short-term highly liquid investments include balances with maturities of three months or less from the date of acquisition.

l) Foreign currency transactions and balances

Transactions in foreign currencies during the year are converted into Rwandan Francs at the rate ruling at the transaction date. Foreign currency holdings, placements and liabilities are adjusted for the daily exchange variations. The resulting differences from conversion and translation are dealt with in the income statement in the year in which they arise. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency at the exchange rate ruling at the balance sheet date.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### m) Financial instruments

Financial instruments are initially recognized when the Bank becomes a party to contractual provisions of the instrument. Financial instruments are initially measured at cost, which includes transaction costs. The five different types of financial instruments held by the Bank are:-

#### Financial instruments held to maturity

Financial instruments with fixed or determinable payments and fixed maturity where the Bank has a positive intent and ability to hold to maturity other than loans and receivables which are measured at amortized cost.

#### Financial assets at fair value through income statements

Financial instruments which are classified as held for trading are held principally for purposes of generating a profit from short-term fluctuations in price or dealers margin, and are measured at fair value. Gains and losses resulting from changes in fair values are recognized in the income statement in the year which they relate.

#### Available-for-sale financial instruments

These are equity financial instruments which are not loans and receivables originated by the Bank; or those held to maturity; or financial assets held for trading, and are measured at their fair value or cost less provision for impairment losses where fair value is not easily determinable. Gains are transferred directly to an investment revaluation reserve. Losses that offset previous increases are charged to the revaluation reserve and any excess thereafter is charged to the income statement.

#### Loans and receivables

Loans and receivables are advances made by the Bank, including staff loans and advances. Loans and receivables are initially measured at the fair value and subsequently at amortized cost. Amortized cost represents the amounts at which the financial instruments were measured at initial recognition minus principal repayments plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount and minus any write down for impairment or uncollectability.

The Bank provides loans facilities to staff to help them acquire or improve and equip their houses and purchase motor vehicles.

#### Derivatives

Currency swap that requires initial exchange of different currencies of equal fair value is accounted for as a derivative.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)

Derivatives (Continued)

A financial asset or liability at fair value through income statement is a financial asset or financial liability that meets either of the following conditions:

- i. it is classified as held for trading, if:
  - acquired or incurred principally for purpose of selling or repurchasing in the near term;
  - part of a portfolio of identified financial instrument that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
  - a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
- ii. upon initial recognition, it is designated by the Bank at fair value through income statement

n) Impairment of non financial-assets

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If any of such indications exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. When the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount.

o) Investment properties

The Bank holds certain properties as investments to earn rental income or awaiting disposal or any future use. Investment properties are carried at cost less accumulated depreciation. Depreciation is calculated at a rate of 5% or 10% using the straight-line method, depending on the construction materials used or the method of purchase.

p) Employee benefits

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

The Bank in addition has an in-house managed pension scheme. The employees' contribution to this scheme amount to a third of total annual salary and the remaining two thirds is contributed by the Bank. The Banks' contribution are charged to the income statement in the year in which it relates.

The Bank also provides medical facilities for the employees and their families. Related costs are charged to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

q) Loans and provisions for loans impairment

Loans are stated at outstanding amounts less provision for impairment.

In its capacity as the fiscal agent and banker to the Government, the Bank may make direct advances to the Government for the purpose of offsetting fluctuations between Government receipts and expenditure. In accordance with Article 49 of the law No. 55/2007, the total amount of advances to the Government outstanding shall not exceed eleven percent of the gross ordinary revenue of the Government collected during the preceding fiscal year.

In accordance with the Agreement No. 1/96 between National Bank Of Rwanda and the Government of Rwanda dated 07 February 1996 and Article 79 of law No. 11/97, all the loans granted to the state before 31 December 1994, in addition to the balance in the revaluation account as of 06 March 1995 were consolidated and are charged interest at a rate of Two percent (2%) per year. The recovery of the amount is through a reduction of 30% of the annual dividends payable to the Government commencing 2002.

As the lender of last resort, the Bank may grant loans or advances for fixed periods not exceeding seven days to commercial banks that pledge securities specified by the Bank. Interest rates charged to these banks are determined by the Bank based on the inter-bank money market rates.

The Bank also operates a staff loans scheme for its employees for the provision of facilities such as house and car loans.

The Bank determines the terms and conditions for granting the loans and fixes applicable interest rates that are generally below market rates.

Specific provisions for loan impairment are made in respect of advances. The provisions are made in accordance with instruction No. 03/2000 of 29 March 2000 relating to classification of assets and monitoring of liabilities of banks and other financial institutions. When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the income statement if previously written off.

r) Employee leave entitlement

The estimated monetary liability for employees' leave entitlement at the balance sheet date is recognised as an expense accrual. This amount is written back in the income statement when employees utilise their leave days in subsequent periods.

s) Taxation

According to Article 74 of the Law No. 55/2007 of 30 November 2007 governing the National Bank of Rwanda, the Bank is exempt from payment of income tax in respect of its functions as defined by the law.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

t) Dividends payable

Dividends are recognised upon payment. Dividends declared after the balance sheet date but before financial statements are authorised for issue are disclosed in the notes to the financial statements.

u) Government grants and government assistance

The Bank, being a wholly owned government financial institution, may receive grants in both monetary and non monetary basis. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet by setting up the grant as deferred income.

Government assistance

The Bank in addition may receive certain forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity. The Bank's policy on government assistance that cannot be reliably measured is to disclose the nature, extent and duration of the assistance in order that the financial statements may not be misleading.

NATIONAL BANK OF RWANDA  
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 YEAR ENDED 31 DECEMBER 2008

3.	INTEREST INCOME	2008 Frw'000	2007 Frw'000
	Local interest earnings	1,082,229	1,067,279
	Foreign interest earnings	<u>9,338,978</u>	<u>13,177,966</u>
		<u>10,421,207</u>	<u>14,245,245</u>
4.	INTEREST EXPENSES		
	Interest on monetary policy issues	1,594,398	2,884,088
	Interest on foreign currency deposits	457,665	393,882
	Interest paid to IMF	<u>273,462</u>	<u>487,647</u>
		<u>2,325,525</u>	<u>3,765,617</u>
5.	COMMISSION AND FEES INCOME		
	Commission and fees income	261,572	260,190
	Commission and fees paid	<u>(151,711)</u>	<u>(83,449)</u>
		<u>109,861</u>	<u>176,741</u>
6.	GAIN ON FOREIGN CURRENCY TRADING		
	Gains on sale of foreign currencies	3,690,530	2,479,339
	Foreign exchange losses	<u>(50,819)</u>	<u>(223,709)</u>
		<u>3,639,710</u>	<u>2,255,630</u>
7 (a)	OTHER NON INTEREST INCOME		
	Write back of currency printing costs	-	131,348
	Fines, penalties and other administrative income	203,859	109,060
	Write back of accruals and provisions (see note 7 (b) )	494,994	452,228
	Gain on sale of property and equipment	315,166	16,469
	Revenue grant from the Government of Rwanda	1,601,527	2,884,088
	Other income ( see note 7 (c) )	<u>219,832</u>	<u>280,796</u>
		<u>2,835,378</u>	<u>3,873,989</u>
7 (b)	WRITE BACK OF ACCRUALS AND PROVISIONS		
	Write back on provisions for doubtful debts from former employees	2,546	2,165
	Write back on provision for staff annual leaves payable	181,193	151,207
	Write back on provision for impairment of investment	219,374	-
	Write back of other provision for doubtful debts	<u>91,881</u>	<u>298,856</u>
		<u>494,994</u>	<u>452,228</u>

NATIONAL BANK OF RWANDA  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 YEAR ENDED 31 DECEMBER 2008

7 (c) OTHER INCOME	2008 Frw'000	2007 Frw'000
Sales of demonetised coins	17,385	9,889
Other non banking income	138,566	198,792
Income from exceptional items	<u>63,881</u>	<u>72,115</u>
	<u><u>219,832</u></u>	<u><u>280,796</u></u>
8 (a) NON INTEREST EXPENSES		
Notes printing and coins minting	4,097,338	819,019
Staff costs (see note 8(b))	5,255,059	5,025,304
Depreciation charge	569,635	513,916
Amortisation of intangible assets	12,836	55,599
Depreciation of investment property	31,349	31,349
Amortisation of deferred costs	992,804	859,945
Provisions for liabilities and charges (see note 8(c))	269,279	380,664
Other expenses	<u>1,615,736</u>	<u>1,253,198</u>
	<u><u>12,844,036</u></u>	<u><u>8,938,994</u></u>
8 (b) STAFF COSTS		
Salaries and other allowances	4,196,204	4,133,077
Pensions	313,363	296,446
Medical expenses	363,559	287,591
Training and development	355,246	267,624
Other staff costs	<u>26,687</u>	<u>40,566</u>
	<u><u>5,255,059</u></u>	<u><u>5,025,304</u></u>
8 (c) Impairments and provisions for liabilities and charges		
Impairments for doubtful staff loans	19,626	13,561
Provision for liabilities and charges	53,545	52,962
Provision for embezzlements and theft	-	125,814
Provisions for staff leaves accrual	<u>196,108</u>	<u>188,327</u>
	<u><u>269,279</u></u>	<u><u>380,664</u></u>
9. FOREIGN ASSETS		
Current accounts	73,315,230	18,588,293
Placements with foreign correspondent banks	179,548,056	233,135,834
Foreign investments	59,193,356	27,749,054
Special Drawing Rights	17,664,166	13,081,510
Other foreign investments	4,005,669	7,797,786
Interest receivables	<u>165,977</u>	<u>554,042</u>
	<u><u>333,892,454</u></u>	<u><u>300,906,519</u></u>

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 YEAR ENDED 31 DECEMBER 2008

10. INTERNATIONAL MONETARY FUND QUOTA

The International Monetary Fund Quota refers to the Government of Rwanda total capital subscription to the International Monetary Fund (IMF). It is equal to Special Drawing Right (SDR) 80,100,000 and was converted to Rwandan Francs based on the mean rate to the Special Drawing Rights (SDR) as at 31 December 2008.

11. DUE FROM GOVERNMENT OF RWANDA	2008 Frw'000	2007 Frw'000
Government consolidated loan:		
Balance at the beginning of year	41,266,354	41,792,881
Recovery in the year	<u>(1,528,910)</u>	<u>(526,527)</u>
	<u>39,737,444</u>	<u>41,266,354</u>

The Bank signed an Agreement with the Government on 6 February 1996 to consolidate the entire Government debt amounting to Frw 34.457 billion at a rate of 2% per annum. The amount increased to Frw 43.469 billion effective 01 August 1997 subsequent to the passing of law No. 11/97 regarding the statutes of the Bank which stipulated under Article 79 that the balance on the revaluation account as at 06 March 1995 be consolidated with the amount of the initial debt. The recovery of the amount is through a reduction of 30% of the annual dividends payable to the Government commencing 2002 and interest on the debt is charged at 2% per annum on the outstanding balance. As at 31 December 2008, an amount of Frw 3.7 billion had been repaid.

Article 49 of the law No. 55/2007 sets the limit of the Government of Rwanda's overdraft facility at 11% of the ordinary Government revenues collected during the preceding fiscal year. The limit for the year 2008 was Frw 26 billion. This limit was not exceeded during the year. The Bank levies on the debit balance interest at a daily average rate of the inter-bank market.

NATIONAL BANK OF RWANDA  
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 YEAR ENDED 31 DECEMBER 2008

12.	LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS	2008 Frw'000	2007 Frw'000
	Receivable from the National Post Office	1,146	13,146
	Advances to Commercial Banks	308,685	388,640
	Advances to agricultural and agro technical sectors	1,888,612	1,702,455
	Current accounts with Commercial Banks	<u>665,361</u>	<u>456,282</u>
		<u>2,863,804</u>	<u>2,560,523</u>
13.	STAFF LOANS		
	Loans to staff	3,794,330	3,549,488
	Provisions for impairment	<u>(107,050)</u>	<u>(90,937)</u>
		<u>3,687,280</u>	<u>3,458,551</u>
14.	INVESTMENT IN ASSOCIATE		
	Cost		
	At 1 January	450,000	450,000
	Provisions for impairment	<u>(230,626)</u>	<u>(450,000)</u>
	At 31 December	<u>219,374</u>	<u>-</u>
	<p>The investment relates to capital subscribed in Société Interbancaire de Monétique et Télécompensation au Rwanda S.A (SIMTEL) which amounts to a shareholding of 7.98%.The shares in SIMTEL are not listed and are not available for sale.</p> <p>SIMTEL is registered and domiciled in Rwanda and it offers an inter-bank network for financial communication that supports cards based payment systems, electronics funds transfers, simple bills payment system and capital market operations to banks and other financial institutions in Rwanda.</p> <p>At the end of year 2006, owing to accumulated losses, National Bank of Rwanda decided to provide for the total cost of its investment in SIMTEL as impairment. In 2008, SIMTEL was restructured and National Bank Of Rwanda share capital was revised from Frw 450 million to Frw 219 million which is 51.25% deduction.</p> <p>The directors are of the opinion that from a provision of Frw 450 million on its investment in SIMTEL, The Bank will recover Frw 219 Million being the new shareholding of the bank in SIMTEL.</p>		
15.	INVESTMENT PROPERTY	2008 Frw '000	2007 Frw '000
	Cost		
	At 1 January and 31 December	<u>313,490</u>	<u>313,490</u>
	Depreciation		
	At 1 January	115,826	84,477
	Charge for the year	<u>31,349</u>	<u>31,349</u>
	At 31 December	<u>147,175</u>	<u>115,826</u>
	Net Book Value	<u>166,315</u>	<u>197,664</u>

NATIONAL BANK OF RWANDA  
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 YEAR ENDED 31 DECEMBER 2008

15. INVESTMENT PROPERTY (Continued)

Investment property is stated at depreciated cost. The property rental income earned by the Bank from this property is nominal on account of a preferential lease rental charged on its related company, SIMTEL.

The direct operating expenses including repairs and maintenance are minimal and there are no significant contractual obligations to incur costs on repairs, maintenance or improvement thereto.

The property is situated on plot number 1200 (R.C number: 2141 KIG) and the directors are of the opinion that the net book value is a fair presentation of its market value.

16. DEFERRED COSTS	Printing of notes	Minting of coins	Total
	Frw '000	Frw '000	Frw '000
Cost:			
At 1 January 2008 and 31 December 2008	<u>3,914,161</u>	<u>385,563</u>	<u>4,299,724</u>
Amortisation:			
At 1 January 2008	3,002,013	304,907	3,306,920
Charge for the year	<u>912,148</u>	<u>80,656</u>	<u>992,804</u>
At 31 December 2008	<u>3,914,161</u>	<u>385,563</u>	<u>4,299,724</u>
Net Book Value:			
At 31 December 2008	<u>          -</u>	<u>          -</u>	<u>          -</u>
At 31 December 2007	<u>912,148</u>	<u>80,656</u>	<u>992,804</u>

Currency note printing and coin minting costs are expensed in the income statement in the period in which they are incurred.

17. OTHER ASSETS	2008 Frw	2007 Frw
Prepayments and deferred charges	264,822	649,542
Consumables	135,141	131,612
Other debtors	<u>627,020</u>	<u>839,651</u>
Provisions for bad debts	1,026,983 <u>136,569)</u>	1,620,805 <u>(167,772)</u>
	<u>890,414</u>	<u>1,453,033</u>

NATIONAL BANK OF RWANDA  
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 YEAR ENDED 31 DECEMBER 2008

18. PROPERTY AND EQUIPMENT

	Land Frw '000	Buildings Frw '000	Machinery Frw '000	Motor Vehicles Frw '000	Capital work in progress Frw '000	Office furniture Frw '000	Computer equipment Frw '000	Security equipment Frw '000	Total Frw '000
<b>Cost</b>									
At 1 January 2008	54,277	1,916,537	1,260,675	43,770	264,248	648,368	1,332,198	961,187	6,481,260
Additions	66,584	-	51,098	47,769	127,969	22,350	182,458	100,258	598,486
Revaluation	1,475,545	-	-	-	-	-	-	-	1,475,545
Disposal	-	(5,093)	(715)	-	-	(12,846)	(50,153)	-	(68,807)
At 31 December 2008	<u>1,596,406</u>	<u>1,911,444</u>	<u>1,311,058</u>	<u>91,539</u>	<u>392,217</u>	<u>657,872</u>	<u>1,464,503</u>	<u>1,061,445</u>	<u>8,486,484</u>
<b>Depreciation</b>									
At 1 January 2008	-	1,760,984	831,155	23,799	-	520,750	996,504	302,275	4,435,466
Charge for the year	-	15,903	124,790	18,904	-	37,382	270,991	101,665	569,635
Reversal on disposal	-	(4,346)	(715)	-	-	(11,844)	(50,153)	-	(67,058)
At 31 December 2008	-	<u>1,772,541</u>	<u>955,230</u>	<u>42,703</u>	-	<u>546,288</u>	<u>1,217,342</u>	<u>403,940</u>	<u>4,938,043</u>
<b>Net Book Value</b>									
At 31 December 2008	<u>1,596,406</u>	<u>138,903</u>	<u>355,828</u>	<u>48,836</u>	<u>392,217</u>	<u>111,584</u>	<u>247,161</u>	<u>657,505</u>	<u>3,548,441</u>
At 31 December 2007	<u>54,277</u>	<u>155,553</u>	<u>429,520</u>	<u>19,971</u>	<u>264,248</u>	<u>127,618</u>	<u>335,694</u>	<u>658,912</u>	<u>2,045,793</u>

The Bank revalued all its land within Kigali city on 17 March 2008. The land was revalued using Kigali City Council tariff.

NATIONAL BANK OF RWANDA  
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 YEAR ENDED 31 DECEMBER 2008

19. INTANGIBLE ASSETS	2008 Frw'000	2007 Frw'000
Cost		
At 1 January	709,664	709,664
Additions	10,898	-
Disposal, transfer or write off	<u>(34,186)</u>	<u>-</u>
At 31 December	<u>686,376</u>	<u>709,664</u>
Amortisation		
At 1 January	696,842	641,243
Reversal on disposal, transfer or write off	(34,186)	-
Charge for the year	<u>12,835</u>	<u>55,599</u>
At 31 December	<u>675,491</u>	<u>696,842</u>
Net book value		
At 31 December	<u>10,885</u>	<u>12,822</u>

The intangible assets represent computer software in use at the Bank.

20. CURRENCY IN CIRCULATION

Currency printed	177,980,255	154,623,755
Money in reserve	(45,946,632)	(63,305,114)
Cash held at the Bank	<u>(43,518,181)</u>	<u>(18,560,159)</u>
	<u>88,515,442</u>	<u>72,758,482</u>

Money in reserve represents currency printed but not yet issued into circulation. Cash held at the Bank represents notes and coins held by the Bank's principal cashier at the end of the financial year. These two elements have been netted off against the liability for notes and coins in circulation because they do not represent currency in circulation. The cash balance in the balance sheet relates to foreign currency cash balances held by the Bank at year-end.

21. GOVERNMENT DEPOSITS	2008 Frw'000	2007 Frw'000
Government account with the Bank	11,297,373	2,895,530
Special deposits	5,625,105	5,073,089
Letters of credit	2,729,955	1,050,084
Project and ministries' accounts	46,670,754	46,700,525
Local government	15,007,861	19,072,788
Public service enterprises	4,954,475	1,194,453
Public institutions	4,862,375	3,304,715
Foreign currency accounts	<u>110,836,052</u>	<u>62,473,222</u>
	<u>201,983,950</u>	<u>141,764,406</u>

NATIONAL BANK OF RWANDA  
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22. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS	2008 Frw '000	2007 Frw '000
Local currency deposits	17,779,006	13,521,444
Foreign currency deposits	8,773,191	8,605,026
Money market interventions	16,600,000	58,611,493
Interest payable	<u>5,987</u>	<u>162,626</u>
	<u>43,158,184</u>	<u>80,900,589</u>

The Bank in fulfilling its principal objectives, engages in issuing and buying Treasury bills for monetary policy purposes. The amount owed to third parties in relation to mop up operations (issue of Treasury bills) is disclosed as money market interventions.

23. AMOUNTS DUE TO THE INTERNATIONAL MONETARY FUND (IMF)	2008 Frw '000	2007 Frw '000
International Monetary Fund deposits	69,303,317	68,820,483
IMF Poverty Reduction Growth Facility loans	6,412,747	4,409,456
Special Drawing Rights allocation	11,848,833	11,766,282
Interest payable	<u>22,610</u>	<u>68,825</u>
	<u>87,587,507</u>	<u>85,065,046</u>

IMF balances are maintained in special drawing rights (SDRs) which are revalued daily with other foreign currency accounts. At the close of the period, they are shown in Rwandan Francs based on the average SDR rate applicable at the balance sheet date.

24. FOREIGN LIABILITIES	2008 Frw '000	2007 Frw '000
National Bank of Belgium current account	93,648	13,459,280
Public deposits in local currency	133,418	160,294
Public deposits in foreign currencies	<u>1,113,226</u>	<u>718,821</u>
	<u>1,340,292</u>	<u>14,338,395</u>

25(a) OTHER LIABILITIES		
Staff deposits and other payable	214,490	219,083
Non statutory accounts in Rwandan Francs	2,067,790	985,209
Non statutory accounts in foreign currencies	740,281	344,166
Other payables (see note 25 (b) )	3,194,563	3,000,326
Provisions for contingencies	58,479	62,755
Staff leaves payable	196,109	188,327
Deferred income	<u>55,476</u>	<u>4,769</u>
	<u>6,527,188</u>	<u>4,804,635</u>

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25(b) OTHER PAYABLES	2008 Frw '000	2007 Frw '000
Supplier's accounts	170,950	129,335
Accruals accounts	778,376	917,490
Other payments	<u>2,245,237</u>	<u>1,953,501</u>
	<u>3,194,563</u>	<u>3,000,326</u>
26. SHARE CAPITAL		
Authorised, issued and fully paid	<u>7,000,000</u>	<u>2,000,000</u>

The Bank's share capital is fixed by Article 2 of Law No. 55/2007 of 30 November 2007 governing the National Bank of Rwanda at seven billion Rwandan Francs. It is entirely subscribed by the Rwandan Government and the shares do not have a par value.

On 28th June 2008, in order to conform to Law 55/2007, the board of directors approved an increase in share capital to Frw 7 billion. This was transferred from the general reserves.

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27. GENERAL RESERVE FUND

In accordance with Article 66 of Law No. 55/2007 of 30 November 2007, National Bank of Rwanda's annual net profit is appropriated at 20% to the General Reserve Fund.

28. OTHER RESERVES	Land revaluation reserves Frw'000	Staff welfare fund Frw '000	Unrealised gain Frw '000	Foreign currency revaluation reserves Frw '000	Total Frw '000
At 1 January 2008	-	2,955,801	17,885	-	2,973,686
Revaluation	1,475,545	-	-	-	1,475,545
Reserve allocation	-	220,390	-	2,949,388	3,169,778
Gain on revaluation of foreign assets	-	-	<u>1,802,915</u>	-	<u>1,802,915</u>
At 31 December 2008	<u>1,475,545</u>	<u>3,176,191</u>	<u>1,820,800</u>	<u>2,949,388</u>	<u>9,421,924</u>

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29. DIVIDEND	2008 Frw '000	2007 Frw '000
Balance at beginning of the year	4,864,415	1,987,038
Dividends proposed for the year	1,248,885	4,864,415
Dividends paid in the year	<u>(4,864,415)</u>	<u>1,987,038)</u>
	<u>1,248,885</u>	<u>4,864,415</u>

30. CASHFLOWS FROM OPERATING ACTIVITIES

Net profit for the year	4,785,983	7,153,551
Adjustments for:-		
Depreciation	569,635	513,916
Amortisation of software	12,835	55,599
Depreciation of investment property	31,349	31,349
Amortisation of deferred costs	992,804	859,945
Profit on local investment	(219,374)	-
Write back of deferred costs	-	(131,348)
Gain on sale of property and equipment	(315,166)	(16,469)
Foreign exchange revaluation (gain)/ losses	(2,949,388)	693,443
Write back of currency reserves	<u>1,802,914</u>	<u>22,050</u>
Operating profit before working capital changes	4,711,592	9,182,036
International Monetary Fund (IMF) Quota	(482,755)	(2,749,893)
Amounts Due from Government of Rwanda	1,528,910	527,613
Loans and advances to banks and other financial institutions	(303,281)	(1,069,077)
Staff loans	(228,729)	(358,081)
Other assets	562,618	31,499
Government deposits	60,219,544	22,043,784
Amounts due to banks and other financial institutions	(37,742,405)	17,303,505
Foreign liabilities	(12,998,102)	481,712
Due to IMF	2,522,461	5,267,389
Other liabilities	<u>1,722,552</u>	<u>(1,643,272)</u>
Net cash from operating activities	<u>19,512,405</u>	<u>49,017,215</u>

31. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet balances:

	2008 Frw '000	2007 Frw '000
Cash balances	662,091	586,156
Foreign assets	<u>333,892,453</u>	<u>300,906,519</u>
	<u>334,554,544</u>	<u>301,492,675</u>

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32. RELATED PARTY TRANSACTIONS

In the course of its operations, the Bank enters into transactions with related parties. Related parties include the Government of Rwanda, as the sole shareholder of the Bank. Unless otherwise stated, all transactions between these entities take place at arm's length and with reference to market rates.

a) Transaction with the Government of Rwanda

Transactions entered into with the Government include:

- (a) Banking services;
- (b) Management of issue and redemption of securities at no commission; and
- (c) Foreign currency denominated debt settlement and other remittances at a fee.

The Bank charges a fee of Frw 1000 for maintaining the Government accounts. Further, Government accounts do not generate interest income. However, the Bank earns commissions on all foreign currency transactions carried out on behalf of the Government.

As at the close of business on 31 December, the following balances, which are included in various balance sheet categories, were outstanding:

	2008 Frw '000	2007 Frw '000
Due from Government of Rwanda (Note 11)	39,737,444	41,266,354
International Monetary Fund deposits (Note 23)	69,303,317	68,820,483
IMF Structural loans (Note 23)	6,412,747	4,409,456
Government of Rwanda deposits (Note 21)	<u>201,983,950</u>	<u>141,764,406</u>

b) Staff loans

The Bank extends loan facilities to members of staff including the senior management. Staff loan assets (Note 13) include advances to employees, which as at 31 December 2008 amounted to Frw 3,687 million (2007: Frw 3,422 million). The advances are at preferential rates of interest determined by the Bank.

	2008 Frw '000	2007 Frw '000
c) Loans to directors		
At 1 January	89,755	112,971
Loan during the period	10,500	-
Loan repayments	<u>(28,106)</u>	<u>(23,216)</u>
At 31 December	<u>72,149</u>	<u>89,755</u>
d) Directors emoluments		
Fees	<u>11,250</u>	<u>12,857</u>

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33. GOVERNMENT GRANTS AND GOVERNMENT ASSISTANCE

(a) GOVERNMENT GRANT	Machinery Frw '000	Computer equipment Frw '000	Furniture and fittings Frw '000	Total Frw'000
At 01 January 2008	-	1,506	3,263	4,769
Received during the year	34,038	26,600	-	60,638
Recognised during the year	<u>(3,404)</u>	<u>(6,165)</u>	<u>(362)</u>	<u>(9,931)</u>
Balance at end of year	<u>30,634</u>	<u>21,941</u>	<u>2,901</u>	<u>55,476</u>

Government grant relates to assets that belonged to the National Insurance Commission which were given to the Bank when activities of the Commission were transferred to the National Bank of Rwanda.

(b) REVENUE GRANT FROM THE GOVERNMENT OF RWANDA

The Government refunds interest on money market intervention paid by the Bank as part of its principal mission of stabilizing the value of the Rwandan currency. These refunds amounted to Frw 1,594 million as at 31 December 2008 (2007: Frw 2,884 million). In addition, there was an amount of Frw 7 million relating to the registration of the Government securities in the Capital Market Advisor Council (CMAC).

(c) OTHER FORMS OF GOVERNMENT ASSISTANCE

The Bank receives other different forms of assistance from the Government. The assistance is in form of land where the head office is built and others that cannot reasonably have a value placed upon them while other transactions with government which cannot be distinguished from the normal trading transactions of the entity, such as procurement through the National Tender Board, protection of its assets by National Police, refunds for money market intervention and monetary policy measures among others.

34. RISK MANAGEMENT POLICIES

Like other similar banks, National Bank of Rwanda is exposed to various risks relating to its activities: credit risks, operational risks, and liquidity, currency and interest rate risks. The Bank's primary risk management objective is to ensure the safeguard of its assets.

The Bank has put in place the following measures to mitigate on different risks that it faces:

Operational Risk

- Preparation and adherence to procedure manuals for all activities of the Bank;
- Timely posting of transactions and preparation of performance indicators, bank reconciliations (daily closure of books of account, weekly/monthly);
- Presence of Accounting Technical Committee and other committees;
- Strong internal audit department and internal control policies.

34. RISK MANAGEMENT POLICIES (continued)

Currency risk

- Diversification of correspondent banks concerning current accounts and term placements in foreign currency. In this regard, a half of foreign assets are held in central banks of Organization for Economic Cooperation and Development (OECD) countries, with another half maintained in European reputable private banks with good standing. The Bank also limits its placements to any single private bank at 10% of its total reserves etc
- The Bank requires a deposit of 100% of the total amount of letters of credit opened and/or confirmed,
- The Bank also requires guarantees (material or personal) in case of issue of loans and off balance sheet items.

Interest rate risk

- Non payment of interest on deposits (Government deposits and deposits from banks)
- The Bank does not have to borrow in local currency for its operating needs
- The Bank has a level of internal borrowings
- The Bank invests in short term instruments

Interest rates risk on currencies lies from the fact that, on one hand interest rates on short-term placements (generally for 1 to 3 months) can diminish and create a loss and on the other hand, interest on liabilities can increase.

Liquidity risk

- There is no need of liquidity in local currency
- Long position in case of foreign currency
- The Bank invests in short tem financial instruments.

The Bank is exposed to liquidity risks when assets with a given maturity cannot cover liabilities.

Foreign exchange risk

- Actual position: long foreign exchange position especially for the United States of America dollars (US\$) for which the exchange rate is relatively stable in comparison to other foreign currencies and hence limiting exchange positions for other currencies.
- The Bank has put in place a foreign reserve management committee

Generally, the Bank manages risks through prudent management of its assets and liabilities.

The Bank's assets are maintained in US\$ given that most transactions with correspondent banks are carried out in this currency. The Bank manages country exchange reserves and places deposits in AAA sovereign assets and supranational organisations.

Structurally, the Bank's exchange positions by currency are long except for transferable positions in Special Drawing Right and in Rwandan Francs that are short. Thus, when exchange rates vary upward, the Bank makes a gain. On the other hand, if there is variation of exchange rates downward, the Bank makes a loss.

34. RISK MANAGEMENT POLICIES (Continued)

Concerning risks on assets and liabilities in Rwandan Francs, the existing legal provisions covers the Bank against all risks relating to interest rates. Article 50 of the Bank's charter provides that "credit balances in the accounts opened at the National Bank do not generate interest". However, Article 49 of the Bank's charter provides that the Bank shall levy on debit balances interest computed at the daily average of inter-bank interest rate.

When commercial banks have excess liquidity, the Bank continues its market intervention policy of short term interest earning deposits (mop up deposits) to encourage the commercial banks to invest/deposit the excess funds at the Bank. This is aimed at bringing monetary stability in the economy.

Regarding risks on property and equipment, the Bank protects itself by obtaining insurance policies from insurance companies.

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35. LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period as at 31 December 2008 to their contractual maturity dates.

	On demand	Due within 3 months	Due between 4-12 months	Due between 1-5yrs	Due after 5 years	Total
ASSETS	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Cash balances	662,091	-	-	-	-	662,091
Foreign assets	90,979,395	182,768,974	950,729	59,193,356	-	333,892,454
International Monetary Fund Quota	-	-	-	-	69,291,925	69,291,925
Due from Government of Rwanda	-	385,834	-	1,543,338	37,808,272	39,737,444
Loans to commercial banks and other financial institutions	919,364	97,360	269,755	1,497,193	80,132	2,863,804
Staff loans	-	152,220	313,441	1,204,222	2,017,397	3,687,280
Other assets	-	338,018	330,639	221,758	-	890,415
Investment property	-	-	31,349	125,396	9,570	166,315
Property and equipment	-	-	445,105	2,978,486	124,849	3,548,440
Intangible assets	-	-	3,778	7,108	-	10,886
Investment in associate	-	-	-	-	219,374	219,374
<b>Total assets</b>	<b>92,560,850</b>	<b>183,742,406</b>	<b>2,344,796</b>	<b>66,770,857</b>	<b>109,551,519</b>	<b>454,970,428</b>
<b>LIABILITIES</b>						
Currency in circulation	88,515,442	-	-	-	-	88,515,442
Government deposits	197,869,870	4,114,080	-	-	-	201,983,950
Due to banks and other financial institutions	26,552,197	16,605,987	-	-	-	43,158,184
Amounts due to the International Monetary Fund	-	22,610	-	1,972,360	85,592,538	87,587,508
Foreign liabilities	1,246,644	-	-	-	93,648	1,340,292
Other liabilities	3,022,562	949,326	2,499,824	55,476	-	6,527,188
Equity	-	-	-	-	25,857,864	25,857,864
<b>Total liabilities and equity</b>	<b>317,206,715</b>	<b>21,692,003</b>	<b>2,499,824</b>	<b>2,027,836</b>	<b>111,544,050</b>	<b>454,970,428</b>
<b>LIQUIDITY GAP 2008</b>	<b>(224,645,865)</b>	<b>162,050,403</b>	<b>(155,028)</b>	<b>64,743,021</b>	<b>(1,992,531)</b>	<b>-</b>
<b>AS AT 31 DECEMBER 2007</b>						
Total assets	32,712,241	244,061,180	1,844,037	34,731,505	108,940,427	422,289,390
Total liabilities and equity	238,973,065	61,610,893	592,093	-	121,113,338	422,289,390

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36. CURRENCY RISK

The various currencies to which the Bank was exposed as at 31 December 2008 are summarised in the table below:-

ASSETS	USD Frw'000	GBP Frw'000	EURO Frw'000	SDR Frw'000	OTHERS Frw'000	Total Frw'000
Foreign assets	300,053,403	2,878,098	12,942,583	17,678,019	340,352	333,892,455
International Monetary Fund Quota	-	-	-	69,291,925	-	69,291,925
Cash balances	<u>410,492</u>	<u>2,197</u>	<u>244,304</u>	<u>-</u>	<u>5,096</u>	<u>662,089</u>
Total	<u>300,463,895</u>	<u>2,880,295</u>	<u>13,186,887</u>	<u>86,969,944</u>	<u>345,448</u>	<u>403,846,469</u>
LIABILITIES						
Due to International Monetary Fund	-	-	-	87,587,508	-	87,587,508
Liabilities to residents	110,662,017	771,122	8,898,871	-	17,516	120,349,526
Liabilities to non residents	407,853	-	798,922	99	133,417	1,340,291
Other foreign liabilities	<u>22,459</u>	<u>73</u>	<u>25,372</u>	<u>-</u>	<u>-</u>	<u>47,904</u>
Total	<u>111,092,329</u>	<u>771,195</u>	<u>9,723,165</u>	<u>87,587,607</u>	<u>150,933</u>	<u>209,325,229</u>
NET BALANCE SHEET POSITION 2008	<u>189,371,566</u>	<u>2,109,100</u>	<u>3,463,722</u>	<u>(617,663)</u>	<u>194,515</u>	<u>194,521,240</u>
AS AT 31 DECEMBER 2007						
Total assets	262,439,274	3,153,534	22,552,318	81,967,262	189,456	370,301,845
Total liabilities	<u>61,729,777</u>	<u>1,866,245</u>	<u>21,990,100</u>	<u>85,065,145</u>	<u>176,326</u>	<u>170,827,594</u>
NET BALANCE SHEET POSITION 2007	<u>200,709,497</u>	<u>1,287,289</u>	<u>562,218</u>	<u>(3,097,883)</u>	<u>(13,130)</u>	<u>199,474,251</u>

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37. INTEREST RATE RISK

The following table shows the extent to which the Bank's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate reprising date and maturity date.

	3 months or less Frw'000	4 to 12 months Frw'000	Over 1 year Frw'000	Non-interest bearing Frw'000	Total Frw'000
<b>ASSETS</b>					
Cash balances	-	-	-	662,091	662,091
Foreign assets	273,735,349	60,142,180	-	14,925	333,892,454
International Monetary Fund Quota	-	-	-	69,291,925	69,291,925
Due from Government of Rwanda	-	385,834	39,351,610	-	39,737,444
Loans to commercial banks and other financial institutions	97,360	269,755	1,577,325	919,364	2,863,804
Staff loans	82,833	210,084	3,221,620	172,743	3,687,280
Other assets	-	-	-	890,415	890,415
Investment property	-	-	-	166,315	166,315
Property and equipment	-	-	-	3,548,441	3,548,441
Intangible assets	-	-	-	10,885	10,885
Investment in associate	-	-	-	219,374	219,374
<b>TOTAL ASSETS</b>	<u>273,915,542</u>	<u>61,007,853</u>	<u>44,150,555</u>	<u>75,896,478</u>	<u>454,970,428</u>
<b>LIABILITIES</b>					
Currency in circulation	-	-	-	88,515,442	88,515,442
Government deposits	-	-	-	201,983,950	201,983,950
Due to banks and other financial institutions	16,605,987	-	-	26,552,197	43,158,184
Amounts due to International Monetary Fund	22,610	-	18,261,581	69,303,317	87,587,508
Foreign liabilities	-	-	93,648	1,246,644	1,340,292
Other liabilities	-	-	-	6,527,188	6,527,188
Equity	-	-	-	25,857,864	25,857,864
<b>Total liabilities</b>	<u>16,628,597</u>	<u>-</u>	<u>18,355,229</u>	<u>419,986,602</u>	<u>454,970,428</u>
<b>INTEREST SENSITIVITY GAP 2008</b>	<u>257,286,945</u>	<u>61,007,853</u>	<u>25,795,326</u>	<u>(344,090,124)</u>	<u>-</u>
<b>AS AT 31 DECEMBER 2007</b>					
Total assets	265,561,675	37,705,993	44,244,958	74,776,764	422,289,390
Total liabilities and equity	<u>47,116,337</u>	<u>11,657,782</u>	<u>29,703,843</u>	<u>333,811,428</u>	<u>422,289,390</u>
<b>INTEREST SENSITIVITY GAP 2007</b>	<u>218,445,338</u>	<u>26,048,211</u>	<u>14,541,115</u>	<u>(259,034,664)</u>	<u>-</u>

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38. CONTINGENT LIABILITIES AND COMMITMENTS

Contingencies:

The Bank is a party to legal proceedings with former employees. Having regards to the legal advice received, and in all circumstances, the management is of the opinion that these legal proceedings will not give rise to liabilities, which in aggregate, would otherwise have material effect on these financial statements.

Commitments:	2008 Frw '000	2007 Frw '000
Contracted for	<u>35,814,838</u>	<u>1,056,480</u>
Authorised but not contracted for	<u>123,258</u>	<u>3,280,577</u>

39. OFF BALANCE SHEET ITEMS

Currency printed and minted	177,980,254	154,630,411
Rwandan Government debts	67,840,363	83,887,066
Letters of credit opened	35,814,837	36,263,777
Other off balance sheets accounts	<u>652,006</u>	<u>4,535,881</u>
Balance as at 31 December	<u>282,287,460</u>	<u>279,317,135</u>

The off balance sheet items mainly relate to currency printing and minting, Government internal debts follow-up and letters of credit for foreign payments generally opened by order of the Rwandan Government.

40. COMPARATIVES

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

41. INCORPORATION

The bank was incorporated in Rwanda in 1964 and is regulated by the Law No. 55/2007 of 30 November 2007.

42. CURRENCY

These financial statements are presented in Rwandan Francs (Frw) and are rounded to the nearest thousand (Frw'000).