



Annual Report 2008



Bank of Kigali



***“We are passionate about conservation
of the rare Mountain Gorilla”***





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Addresses

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Fax: (250) (0)252 573-461 and (0)252 575-504
Swift: BKIG RW RW
E-mail: bk@bk.rw
Website: www.bk.rw

Our Branches - Kigali City

Town Branch

GSM: 0788302514

Kacyiru

Tel : 0252 582380

Fax : 0252 582370

GSM : 0788302461

Remera

Tel : 02525 87999

Fax : 0252 587998

GSM : 0788304957

Nyabugogo

GSM : 0788302472

Airport

Tel : 0252 587999

Fax : 0252 587998

GSM: 0788305163

Western Union

Tel : 0252 593154

Fax : 0252 571286

GSM : 0788537338

Kabuga

GSM : 0788301215

Our Branches - Provinces

Ruhengeri

Musanze District

P.O. Box 50

Tel : 0252 546250

Fax : 0252 546233

GSM : 0788302515

Gisenyi

Rubavu District

P.O. Box 171

Tel : 0252 540279

Fax : 0252 540676

GSM : 0788302068

Cyangugu

Rusizi District

P.O. Box 221

Tel : 0252 537067 à 69

Fax : 0252 537067

GSM : 0788302067

Nyagatare

P.O. Box 175 Kigali

Tel : 0252 565427

Fax : 0252 565427

Rwamagana

P.O. Box 90

Tel : 0252 567142

Fax : 0252 567141

GSM : 0788302471

Gitarama

Muhanga District

P.O. Box 15

Tel : 0252 562558

Fax : 0252 562559

GSM : 0788302496

Kayonza

P.O. Box 175 Kigali

GSM : 0788301214

Butare

Huye District

P.O. Box 624

Tel : 0252 530358

Fax : 0252 530350

GSM : 0788302484

WESTERN UNION®

MONEY TRANSFER

CASHIER



OUR MISSION

We are in business to create value for our stakeholders and endeavour to provide the best financial services to businesses and individuals. We invest in our employees and provide them with meaningful rewards that encourage them to make significant contributions to the company and the community.

OUR VISION

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

OUR VALUES

- Customer Focus
- Integrity
- Performance
- Innovation
- Teamwork
- Accountability

OUR MOTO

“Trusted partner in wealth creation”



Financial highlights

KEY PERFORMANCE INDICATORS

Operating income in 2008 up by 28% to **14.2 billion**
2007 Rwf 11.1 billion

Net loans and advances in 2008 up by 48 % to **72.0 Billion**
2007 Rwf 48.6 billion

Profit before taxation up in 2008 by 35% to **8.3 billion**
2007 Rwf 6.1 billion

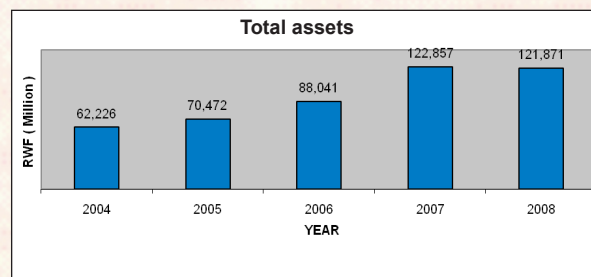
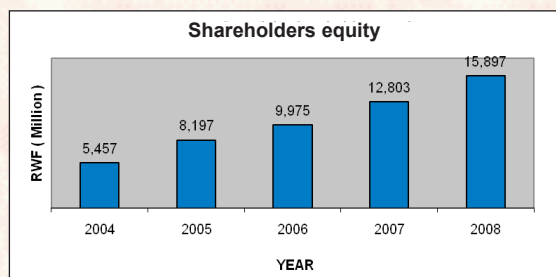
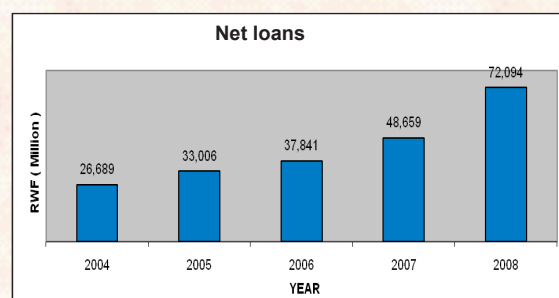
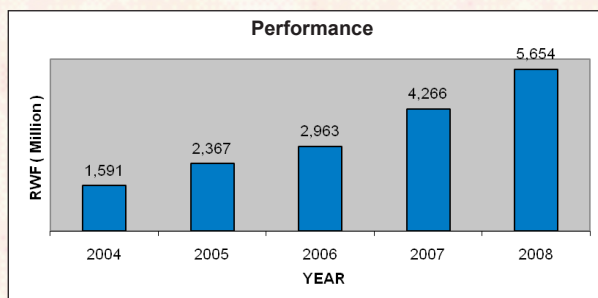
Total assets stable in 2008 at **120.7 billion**
2007 Rwf 121.8 billion

Profit after taxation up in 2008 by 32.5% to **5.6 billion**
2007 Rwf 4.2 billion

Shareholders equity in 2008 up by 24% to **15.8 Billion**
2007 Rwf 12.8 billion

Financial Highlights

	2004	2005	2006	2007	2008
Performance	1,591	2,367	2,963	4,266	5,654
Total assets	62,226	70,472	88,041	122,857	121,871
Net loans	26,689	33,006	37,841	48,659	72,094
Shareholders equity	5,457	8,197	9,975	12,803	15,897



Board of Directors



Directors

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

From the right sitting and standing respectively.

Mr. Henry GAPERI (<i>Chairman</i>)	Re-appointed on 31 October 2008
Mrs. Perrine MUKANKUSI	Appointed on 31 October 2008
Mr. Apollo M. NKUNDA	Appointed on 31 October 2008
Mrs. Alphonsine NIYIGENA	Appointed on 31 October 2008
Mr. François NKULIKIYIMFURA	Re-appointed on 31 October 2008
Mrs. Dative MUKESHIMANA	Appointed on 31 October 2008
Mr. Sudadi KAYITANA	Appointed on 31 October 2008
Mr. Manassé TWAHIRWA (<i>Not in photo</i>)	Retired on 31 October 2008
Mr. Richard MUGISHA (<i>Not in photo</i>)	Retired on 31 October 2008
Mr. J.M.V MULINDABIGWI (<i>Not in photo</i>)	Retired on 31 October 2008

Mr. James GATERA (*Managing Director*)

Executive Management



Standing left to right:

Mr. James GATERA (Not in Photo)	Managing Director
Mr. Désiré MUSONI	Head of Organization, Research & Strategy
Mr. Louis RUGERINYANGE	Head of Administration
Mr. Pascal RURANGWA	Head of Internal Audit
Mr. Adolphe NGUNGA	Head of Domestic Operations
Mr. Cisco KANYANDEKWE	Head of Finance
Mrs. Yvonne CYUMA	Head of Legal Affairs
Mr. Lawson NAIBO	Chief Operations Officer
Mr. Alex NGABONZIZA	Head of ICT
Mrs. Monique NYIRAMUGWERA	Head of Credit
Mr. Enock LUYENZI KINYEMBA	Head of General Services
Mr. Martin KANA MULISA	Head of Marketing
Mrs. Frances IHOGOZA	Company Secretary
Mr. Jean Marie GACANDAGA	Head of Risk Management
Mrs Flora NSINGA (Not in Photo)	Head of Human Resources Management



A Message from the Chairman



“For over 42 years now, we have been the engine for growth in the wealth of our customers and the country”

Introduction

I am pleased to present to our Stakeholders the Annual Report and Financial Statements for the year ended 31 December 2008. For yet another year, Bank of Kigali has continued to produce outstanding results for our Shareholders, Customers and the Community. There are a number of reasons behind this success, one of them being the strength of maturity that our stakeholders can proudly count on as by end of 2008, the Bank had attained its 42nd birthday. For over 42 years now, we have been the engine for growth in the wealth of our customers and the country.

Most importantly, it is a success story because we achieved commendable milestones. The Bank obtained Profit before tax of Rwf 8.3 billion which is an increase of 39% from Rwf 6.2 billion in 2007. It was a result of the combined efforts of all our stakeholders.

Moreover, we have continued to protect the Bank's leadership position in the market. In the year under review, the Bank maintained its leadership position in total asset base, deposits, cost management and profitability.

In 2008, Bank of Kigali recorded one of the greatest achievements in its history, the

completion and occupation of the Bank's own new home together with refurbishment of the old head office now under rental. The building including IT and related equipments was awarded an Investment Certificate by Rwanda Development Board (RDB) in recognition of the value of investment made in our country.

On 02 April 2008, His Excellence Paul Kagame, President of the Republic of Rwanda, inaugurated the Bank's New Headquarters in Kigali.

The Bank has continued getting closer to our customers by increasing the branch footprint country wide. In the course of 2008, Nyabugogo Agency opened in the city of Kigali and in the Eastern Province opened in Nyagatare. Currently, the Bank has 15 branches and agencies across the districts and provinces.

Operational Environment

The great achievements were recorded when the Bank was faced with a chain of uncertainties arising from the privatization process that started in the 1st quarter of 2007. An MoU relating to the privatization process was signed with BNR as Regulator. Its provisions restricted major development initiatives for the most part of the year as the Bank prepared to privatize.



It was after the conclusion of the privatization process that the Bank started to re-invent itself in terms of its ambitious plans in the areas of branch expansion and growth in credit. Our strategic plan focuses on continued branch expansion, enhanced customer service, product innovation and development as well as human resources rationalization, training and development.

Dividends

In order to support the Bank's ambitious expansion plan, our Shareholders, in their Annual General Meeting of 27 March, 2009 decided by a resolution to plough back the profits for re-investment. This gives Bank of Kigali a brighter future of profits for the years ahead as one of the best capitalized banks in the Market.

Rwanda and the global Economy

The full impact of the global recession and credit crunch has been experienced in varying degrees depending on the level of integration of each country's economy and market to the global village.

Rwanda has a lower rate of integration and the country offers unique products in tourism and coffee commodity therefore, the impact is not immediate and severe.

According to BNR Economic Review of November, 2008 the real sector of the economy recorded good performance in the first half of the year.

Banking Sector Developments

As given by the BNR economic review for the first half of 2008, the Banking Sector experienced strong reforms in both legal and structural arrangements. This saw a number of new institutional investors in the market including: ACCESS Bank; BIO, AFRICINVEST and SHORE CAPITAL; and RABOBANK.

Overall performance in the Banking sector in the year ended 2008 was very good with almost all players recording improved profitability and

A Message from the Chairman

larger balance sheets as given by their published accounts.

The only evidence of turmoil however, was the liquidity crisis experienced in the last quarter of 2008 where a number of banks recorded liquidity below BNR's legal requirement of 100%.

Bank of Kigali's strategic response to the challenge is to be more vigilant in risk management and to maintain competitive but sustainable deposit rates. The Bank has resisted the pressure to increase lending rates as this would further increase the cost pressure on our borrowing customers.

Community Investments

In relation to good corporate citizenship of the Bank, I would like to highlight that Bank of Kigali has been at the forefront of investing in its community especially through financing and participation in social-economic projects and support to vulnerable groups in our community.

Corporate Governance

As part of our culture, the Board is committed to good corporate governance, ethical behaviors and values necessary to maintain the highest standards of accountability, transparency and integrity while remaining responsive to our stakeholders and the community.

During the year, the National Bank of Rwanda published its Regulation on Corporate Governance. This brought forth an extremely useful initiative. We have also taken an opportunity to introduce improvements in our governance structures including establishment of the position of Risk Manager to oversee the enterprise-wide risk management, enhance strategies to manage operational, market, credit and other risks facing the Bank. Establishment of a new Risk Management framework is complete and there has been a review of the performance of the Board Committees to enhance our roles as directors during the year.



A Winning Team

It is a privilege to be the Chairman of such a dynamic, leading-edge organization as Bank of Kigali. On behalf of the Board, I would like to acknowledge the efforts made by the Bank's management and staff, and in particular, the Executive Team for their leadership in both development of long term strategies and management of day-to-day affairs of the Bank. I very sincerely recognize all the Bank staff in delivering these commendable results in the year under review.

My gratitude also extends to our customers for their continued patronage and confidence in the Board and Management. We pledge to continue delivering and continuously improving our customer service and to make your priorities our own.

A Message from the Chairman

I would like to extend our thanks to our Shareholders and pledge to continue our efforts to reward your confidence.

Thanks to my fellow Directors for the excellent manner in which they have performed their duties with diligence and commitment.

In conclusion, Bank of Kigali has experienced another busy, challenging and exciting year and the Board is looking forward to the continued improvement in performance.

A blue ink signature of Henry GAPERI, written in a cursive style.

Henry GAPERI
Chairman



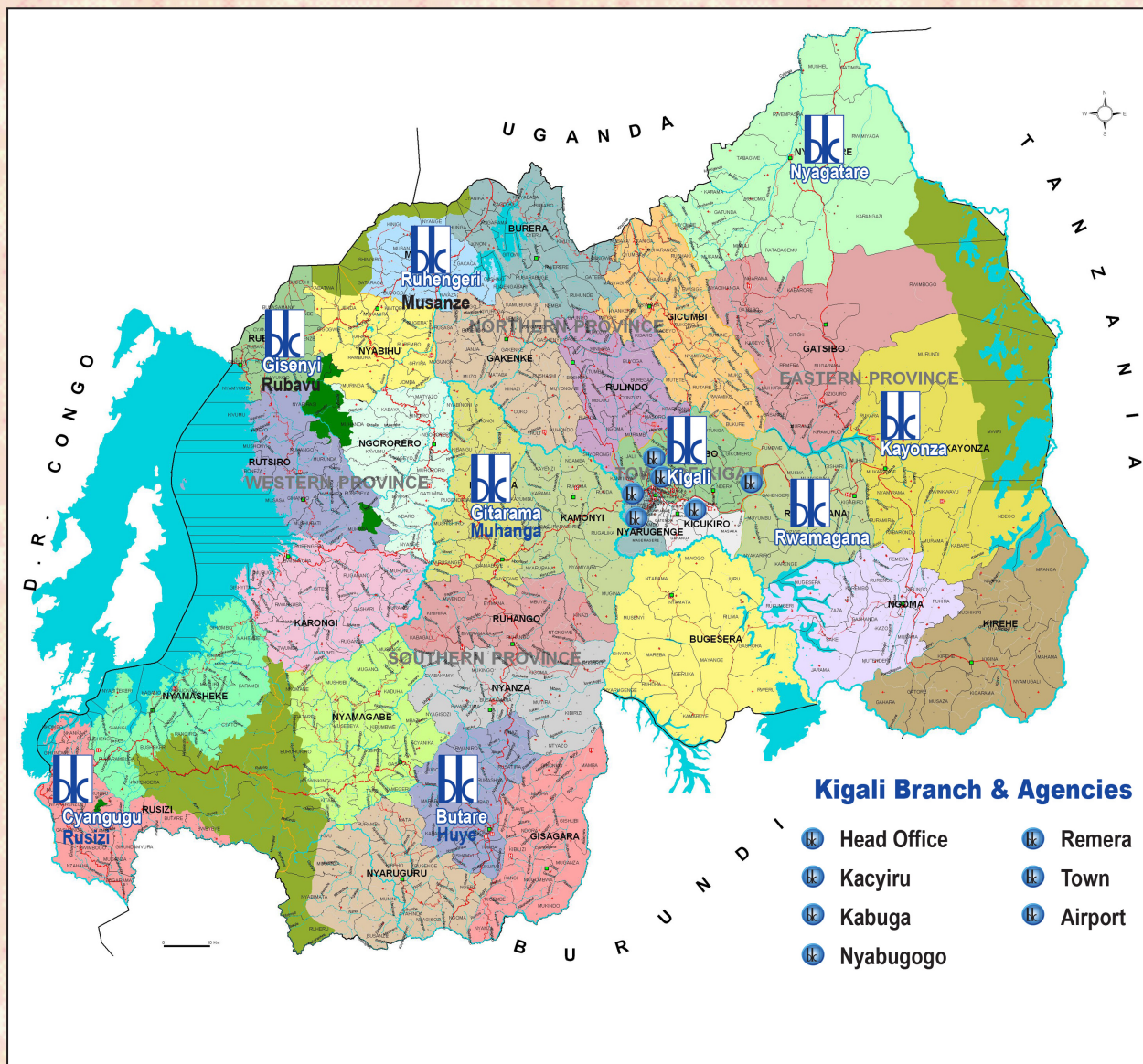
H.E Paul KAGAME, President of the Republic of Rwanda and Mr. François KANIMBA, Governor of the National Bank of Rwanda at inauguration ceremony of the new Bank of Kigali Head Office on 2nd April 2008.



H.E Paul KAGAME, President of the Republic of Rwanda at inauguration ceremony of the new Bank of Kigali Head Office. On his immediate left is Hon. James MUSONI, Minister of Finance and Economic Planning and Mr. Manassé TWAHIRWA then Chairman of the Board of Directors of Bank of Kigali. Extreme right is Mr. James GATERA the Managing Director, Bank of Kigali.



Our Branch Footprint





Managing Director's Report



"We strive to be our customers' trusted partner in wealth creation"

Introduction

I am pleased to report on the performance of Bank of Kigali for the year 2008. In our Annual Report for 2007, we highlighted a number of strategic initiatives that uplifted the Bank's overall performance for 2008 ahead of our expectation at the beginning of last year.

The year was difficult by all accounts. It marked the beginning of the global recession and credit crunch, the effects of the challenging business environment created by the political upheavals in Kenya in the first quarter of 2008, and liquidity crisis in the last quarter of 2008 caused by major depositors removing their deposits to diversify their investment portfolio. The competitive environment continued to intensify especially with the entry of Pan African and regional banks.

In spite of all this, we sought to continuously adapt as a bank and endeavored to do so faster and more aggressively than our competitors. We continue to provide our customers with the tools they need to be successful. We also continue to invest in the areas where we have strategic competitive advantage.

In 2008, we consolidated our position as the leading bank in terms of profitability and total assets. We have the least cost to income ratio which has enabled us to deliver financial services at comparatively lower tariffs and rates compared to other players in the market.

We must improve our productivity and customer service to support the country's development and Vision 2020 goals.

Our Achievements

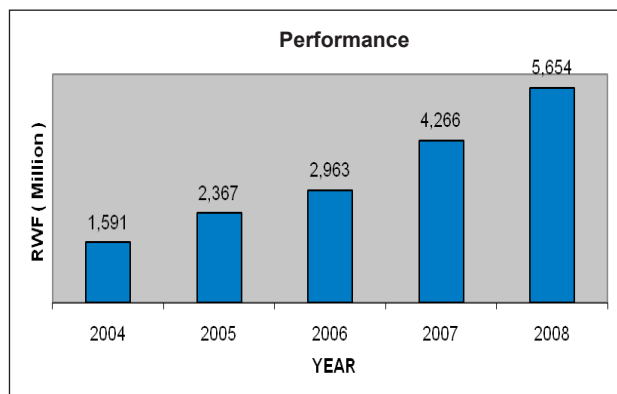
Over the years, we have grown to become adaptable to meet the changing needs of our customers. It is this adaptability that enabled the Bank to register the remarkable achievements and milestones during the year.

Financial Performance

Despite the turbulence and volatility in the global economy coupled with tight liquidity in our market, Bank of Kigali achieved a solid financial performance in 2008. The Bank returned a profit after tax of Rwf 5.6 Billion compared to Rwf 4.2 billion in 2007. This makes the Bank the most profitable among all the banks in Rwanda with the results registering over 50% of the banking sector's overall profitability.

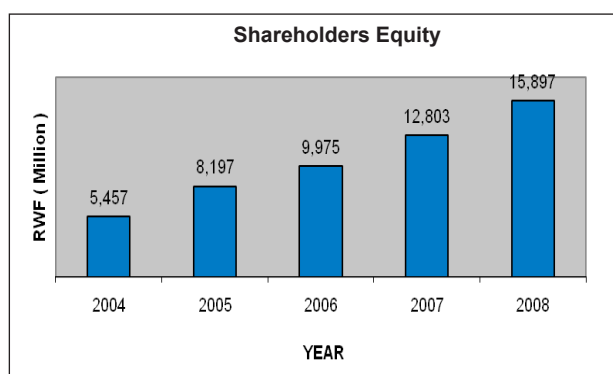


The strong performance was as a result of higher interest income arising from higher volume of loans which increased by 48% in the year. Also, recovery of non-performing assets helped boost the income.



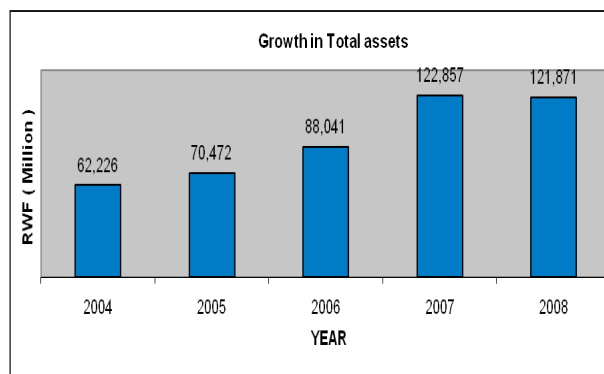
Shareholders Equity

Shareholders equity increased by 24% after the shareholders agreed to fore-go dividends in order for the Bank to finance its ambitious business plan. The growth in the shareholders' equity in the last five years is as shown in the graph below. This makes Bank of Kigali one of the best capitalized banks in the market.



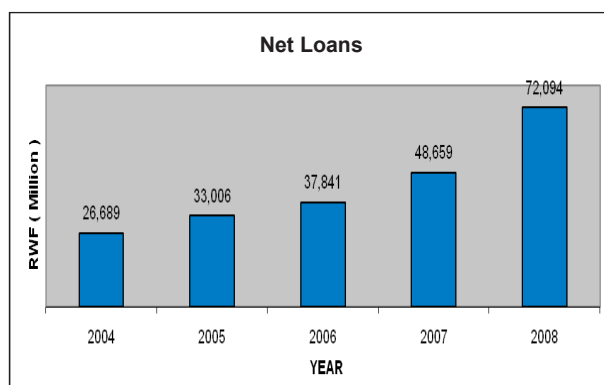
Total Assets

The Bank's total assets were stable between 2007 and 2008. The cumulative annual growth rate over the 5 years was 94% as indicated in the table below:



Net Loans

Loans and advances to customers grew by 48% between 2007 and 2008. The cumulative annual growth rate was 170% over the last 5 years as indicated in the table below:



We believe that meaningful development in the country and realization of the Vision 2020 goals can only be achieved through the private sector acting as the engine for the national development and with the financial service providers acting as a catalyst. The growth in our loan book is a clear indication of the Bank's commitment to our motto of being ***"trusted partner in wealth creation"*** for our customers and our nation.

Core capital

In order to finance our ambitious business plan and enhance the Bank's ability to undertake big ticket financing, the shareholders decided to ploughback 100% of the profits. The core capital of the Bank has increased by 24% to Rwf. 15.8 billion compared to Rwf. 12.8 billion in 2007.



Managing Director's Report

This makes Bank of Kigali one of the strongest banks in terms of core capital. We are now able to finance single projects in excess of Rwf. 4 billion without contravening BNR guidelines.

Risk Management and Compliance

Given the events across the world, the risk management bar has been raised as the major problems afflicting the failed institutions arose from poor risk management. At Bank of Kigali, we have taken steps to establish the risk management position in the Bank's governance structures, we have undertaken an overall review of the policies and procedures as a dynamic process relative to changes in the market conditions. The policy framework being reviewed includes risk management, credit, liquidity and Assets and Liability management, business continuity and disaster recovery plans.

Likewise, as part of our ongoing reforms, we are investing in risk management and compliance education and awareness to all our staff. We are creating a culture of risk management in our strategic approach to business. We are promoting compliance and accountability among all our staff as a new culture at Bank of Kigali. This will especially be enhanced through our human capital development initiative currently underway.

Human Capital Development Initiative

We have started a systematic and comprehensive organizational restructuring with emphasis to building the Bank's human capital in terms of skills and capabilities required to meet the demands of the 21st century market and competitive environment.

International Recognition Awards

In 2008, the Bank was bestowed with an international recognition award **International Star for Quality and Excellence**. In 2007, the Bank was awarded the **Quality Summit**

Award. The recognitions were given by the Business Initiatives Directions; a Geneva based international quality programmes organization in recognition of continuous improvement in quality of service.



Our Products and Banking Innovations

In addition, to the traditional financial products, current and fixed deposit accounts, working capital overdrafts, equipment loans, mortgage and construction facilities and other loan products, the Bank employs technology to drive and distribute its products. The Bank has internet banking product – B-Web, which



allows customers to access their bank accounts and make transfers, print bank statements, order cheque books or give instructions to the Bank in one of the most secure banking services at the comfort of the customers' home or office computer. The service is a proactive cash management for those customers who would like pay salaries and bills on a 24 hour stress free banking environment at the comfort of their offices and homes.

Managing Director's Report

cards and local Visa Electronic debit cards. As the competitive environment intensifies, we have to innovate. The Bank has developed unique products targeting our Diaspora customers. In 2008, the Bank also developed a unique education saving product which has become very attractive to customers especially those between the 30 and 40 years.

Looking Ahead

We aspire to be the best and most innovative provider of financial solutions in the region, a bank that is the "Trusted partner in wealth creation" for our customers and nation. We believe that we can continue to meet this challenge through continuous improvement in customer service, development of innovative products, improvement and expansion of our branch network and also design and delivery of products using technology which will help us deliver quality service at comparatively lower costs.

Customer service

In line with the national call, we continue to improve on our customer service – we recognize the importance of the customer in all our business process. This is why the Bank is currently opening more branches as one way of ensuring easy access to our services to all our existing and potential customers. We also intend to increase our ATMs so that our customers can access their cash 24 hours a day in many locations.

We also continue to educate and encourage our deposit customers to build stronger relations and confidence with the Bank. On our part, the Bank reciprocates through provision of loans and advances. Customers with a good track record of saving with the Bank find it easy to access loans and advances since the Bank can be able to evaluate the customers' ability to service their loans and advances.



24/7
stress free Banking

With over 20 ATMs run through SIMTEL switch, our customers have access to cash 24 hours a day.

The Bank also provides Western Union Money transfer services, Visa and MasterCard credit



Managing Director's Report

Technology development

We are investing in upgrading the core banking system that will contain new modules of “Customer Relationship Management and Marketing Campaigns” which are accessible through a browser for our customers.

Bank of Kigali's ambitious vision also looks forward to a new version of our website that contains many other options to help customer-online functions as SMS banking, interfacing with service institutions as RRA, CSR, ELECTROGAZ, RWANDACELL and RWANDATEL for timely transaction exchanges.

Acknowledgments

We continue to record higher performance year on year due to patronage and loyalty of our customers. We would like to appreciate the loyalty and pledge to continuously improve our customer service.

We value and appreciate the contribution of all our staff. It is through hard work and dedication to delivering strong service to all our customers that enabled the Bank to maintain its leadership position in performance. We are on course with our human capital development initiative that aims to make the Bank the employer of choice in the market.

My appreciation goes to our Board of Directors who throughout the year diligently and tirelessly guided our directions and initiatives.

My thanks to our shareholders and other stakeholders, we continue to create value for the shareholders and will be a good citizen for the benefit of all our stakeholders.

Conclusion

We have built a strong foundation for future growth. We expect to perform even better in the coming year despite the impact of the global economic crisis.

We look forward to the continued trust and confidence from all our stakeholders and especially our esteemed customers. We pledge to remain ahead of competition in terms of continuous improvement in customer service, and product innovation in order to continue maintaining the trust and confidence. Together in partnership we can translate Vision 2020 to reality.

James GATERA
Managing Director

Best Taxpayer: 2002-2008





Corporate Responsibility Report

At Bank of Kigali, we recognise that corporate social responsibility and environmental management is a necessity of doing business rather than a choice. We believe in giving back to the community and in being part of the Rwandan community. Thus, the Bank continues to play its role as a good corporate citizen. In 2008, these facts were demonstrated in the projects and culture orientation of the Bank towards business. Some of the major highlights are detailed in the sections below.

Best Taxpayer 2002 - 2008

Our good corporate citizenship extends to tax compliance. In the 8th RRA taxpayer open day, the Bank was bestowed the Best Taxpayer Award. The Bank has been the best taxpayer for all the years between 2002 and 2008. For the year 2007, we also got RRA's recognition for our innovativeness in business. Being a good taxpayer is part of our corporate culture.



Best taxpayer awards: 2005, 2006, 2007

Partnership in Development Programmes

We are dedicated to joining hands with the public sector, private sector and the civil society in supporting social economic programmes in our country.

During the year under review, the Bank was bestowed with an Appreciation Award for its contribution towards the 11th Rwanda International Trade Fair issued by the Rwanda Private Sector Federation.



Gold award bestowed to Bank of Kigali by PSF, 2008

Looking after our communities:

Education

In 2008, the Bank invested in sponsoring education of 200 students through IMBUTO Foundation. The Bank is committed to the national and global call of supporting education for the children from less privileged backgrounds.

Creating a Culture of Saving

Bank of Kigali is committed to joining hands with all stakeholders in creating a culture of saving. An entrenched national saving culture is one sure way of reducing reliance, enhancing financial independence and creating national wealth in Rwanda. The Bank has initiated a students savings account that will help promote savings from the earliest stages in life.

We intend to introduce innovative savings and thrift products in the coming year.



Yes I can...

**Graduate, run my own
business and employ
many people**

**But only
if I save.**



Environmental Management

Environmental management is becoming an important global and national concern. In line with these concerns, the Bank seeks to proactively support environment conservation, manage our environment risks, minimize our direct and indirect environment impact and enhance ecological conservation and sustainable development. We especially support the annual national event on conservation of the rare mountain gorillas.

Mountain Gorilla Conservation

We are passionate about the conservation of wildlife especially the protection of the world's rare Mountain Gorillas. Over the years, we have joined the rest of Rwandans and the world at large in the annual celebration of gorilla naming "Kwita Izina" through direct participation and sponsoring of the ceremony. In 2007, the Bank was given an award for Partnering in hosting the Rwanda Gorilla Rally.



Mr James Gatera, Managing Director (extreme left) in Kwita izina ceremony, in Kinigi

Staff Community Services

The staff of Bank of Kigali also invested in promoting environment conservation through planting of trees and participation in community

Corporate Responsibility Report

work "Umuganda" over the years in order to support our environmental conservation.

Promoting work-life balance

The Bank's football team participates in competition with other organizations in order to promote health living among our staff and communities.



Bank of Kigali football team.

Where we are going in Corporate Social Responsibility

Going forward, the Board has adopted a policy of evaluating customers' relationships not only on the basis of risk/return but also on environmental, social and governance factors. This will ensure that the Bank and its clients operate in a sustainable business environment.

We shall therefore, continue to support the realization of Vision 2020, by promoting corporate social responsibility and enhancing our environmental protection.

Conclusion

The Board has also embraced a policy of setting aside one percent of gross income for corporate responsibility and environment management activities. This demonstrates the Bank's true commitment to good citizenship and creating of wealth for the community.



Corporate Governance Report

Bank of Kigali broadly complies with best practices for Code of Conduct of directors, officers and employees. The company pursues professional standards and norms in handling its business relationships. The Bank's corporate governance structures and programmes are in compliance with the BNR regulation 6/2008 on corporate governance.

Shareholders' responsibilities

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the board accountable and responsible for efficient and effective governance.

Boards' responsibilities

The Board of Directors is responsible for the governance of the Bank and for conducting the business and operations of the company with integrity and in accordance with the generally accepted corporate governance practices, in a manner based on transparency, accountability and responsibility.

Composition of the Board of Directors

The Board is composed of seven independent non-executive directors who meet on quarterly basis or more frequently as the business demands.

The board retains full responsibility for the direction and control of the Bank as spelt in the Memorandum and Articles of Association.

Appointments to the Board are made by the Cabinet in consultation with the Minister for Finance and Economic Planning. The mix of directors includes a Director General of one of largest non-bank financial institution, a professional accountant, a lawyer, other private sector representatives and a Government representative. All the directors have the

required qualifications and experience to exercise direction and control of the Bank.

Board performance evaluation

The table below analyses the Board members' performance in the meetings held during the year.

Structure	Board
Meetings held	6
Members	Attendance
Mr. Henry GAPERI	5/6
Mr. François NKULIKIYIMFURA	6/6
Mr. Sudadi KAYITANA	2/2
Mrs. Dative MUKESHIMANA	2/2
Mr. Apollo M. NKUNDA	2/2
Mrs. Alphonsine NIYIGENA	1/2
Mrs. Perrine MUKANKUSI	1/2
Mr. Manasse TWAHIRWA	4/4
Mr. J.M.V MULINDABIGWI	4/4
Mr. Richard MUGISHA	1/4

Board sub-committees

In line with the BNR guidelines 6/2008 on corporate governance, four board committees have been set up to support the full board in performing its functions, particularly in respect to credit risk management, audit and risk management, asset and liability. The setting up of the board committees is instrumental in reinforcing the performance of the board and in underpinning its critical responsibilities.

Audit and Risk Committee

This is the principal board committee that comprises of three board members who are independent non-executive directors. The Committee meets once every quarter. The mandate of the Audit and Risk Committee is to:

- Oversee the Bank's financial reporting policies and internal controls;



- b) Review and make recommendations on management internal control programmes established to monitor compliance;
- c) Appointment and review of the work of the external auditors;
- d) Review of the work of the internal auditors;
- e) Oversee the development of risk management policies and programmes;
- f) Identify, monitor and control risk management within the Bank.

Board Credit Committee

The committee comprises of four independent non-executive directors and the committee meets on monthly basis or as required by the business demands.

The functions of the committee include appraisal and approval of credit applications. The Committee also monitors and reviews credit risk, non-performing assets and ensures adequate provisions are held against identifiable losses in accordance with BNR guidelines.

Credit facilities in excess of Rwf 100 million require board approval through its credit committee. These are reviewed approved by the Board Credit Committee.

Nomination committee

The nomination and remuneration committee reviews and recommends the remuneration to directors based on the responsibilities allocated to the them. The committee carries out regular reviews to ensure that it adequately compensates the directors for the time spent on the affairs of the Bank. The committee also approves the salaries and remuneration of management and staff of the Bank. The committee meets once a year.

Assets-Liability Committee

The Board Asset-Liability Management Committee comprises of three independent

Corporate Governance Report

non-executive directors. The Committee meets quarterly or more frequently as appropriate to monitor and manage the Bank's balance sheet to ensure that various business risks such as liquidity, capital, market and currency risks are addressed.

Management Committees include

Management Committee

This committee comprises of the Managing Director, Chief Operations Officer, and all heads of divisions and departments, and Company Secretary. It is charged with assisting the Managing Director in the implementation of the board policies and strategies in the Bank. The committee meets on monthly basis.

Credit Committee

This committee comprises the Managing Director, Chief Operations Officer, Head of Credit and Head of Commercial. It is charged with the appraisal of loans and advances and also reviews credit risk related other credit matters. The committee meets every week.

Assets-Liability Committee

The Bank has a Management Asset-Liability Committee (Management ALCO), which is chaired by the Bank's Managing Director and includes, the Chief Operations Officer, Head of Operations and Head of Finance and Accounts. The committee meets every morning to monitor and manage the Bank's balance sheet to ensure that various market risks are addressed and treasury operations are managed proactively.

Human Resources Committee

The human resources committee which comprises all heads of divisions is chaired by the Managing Director and is responsible for the implementation of the Boards human resources policies and directions. The committee approves the recruitments, promotions, changes in compensation and other human resources operations. The committee meets once a month.

**Procurement and tender committee**

This committee comprises of the Managing Director, Head of Administration, Head of Human Resources, Head of Finance and Accounts, Head of General Services and Head of Organization and Head of Information Communication Technology. It is charged with the appraisal of procurements in the Bank. The committee meets every month.

Communication to the shareholders and directors

The Bank has regular communication with the shareholders providing the required information, notices and resolutions as required for the Annual General Meeting and Extraordinary Meetings.

There is also regular communication with the directors to enable them to carry out their direction and control responsibilities.

Corporate Governance Report**Shareholders**

A list of the shareholders is as follows:

	No. of shares	shareholding %
Government of Rwanda	24,057	52.87
Social Security Fund of Rwanda (CSR)	15,313	33.66
Caisse d'Epargne du Rwanda	6,125	13.46
Prime Holding	1	0.002
OCIR Café	1	0.002
OCIR Thé	1	0.002
National Post Office	1	0.002
RAMA (national health insurance fund)	1	0.002
Total	45,500	100

Shareholdings are distributed as follows:

Range	No. of shareholders	Shares	% shareholding
1 - 500	5	5	0.01
5,000 – 10,000	1	6,125	13.46
10,001 - 50,000	2	39,370	86.53
Total	8	45,500	100



Statement of Directors' Responsibilities

Law No. 06/1988 relating to Commercial Enterprises in 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 judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of Law No.06/1988 relating to Commercial Enterprises in 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 directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this agreement.

By Order of the Board

Director

Director

27 March 2009



Report of the Independent Auditors to the Members of Bank of Kigali SA

Report on the financial statements

We have audited the accompanying financial statements of Bank of Kigali SA, set out on pages 27 to 55 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. The financial statements of the Bank as of 31 December 2007, were audited by another auditor whose report dated 12 March 2008, expressed unqualified opinion.

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 Law relating to Commercial Enterprises in 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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 Bank of Kigali S.A 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 the requirements of the Law No 06/1988 relating to Commercial Enterprises in Rwanda.

Ernst & Young

Kigali, 27 March 2009

**Income statement**

For the Year Ended 31 December 2008

	Note	2008 Rwf'000	2007 Rwf'000
Interest income	4	10,761,991	8,720,016
Interest expense	5	(1,859,931)	(1,735,290)
Net interest income		8,902,060	6,984,726
Fees and commission income	6	1,176,260	979,977
Interest income on financial instruments	7	689,854	616,303
Foreign exchange income	8	2,584,758	2,160,551
Dividend income		48,576	30,474
Other income	9	869,254	359,114
Operating Income		14,270,762	11,131,145
Provision for doubtful debts	10	(255,147)	(535,774)
Operating expenses	11	(5,673,328)	(4,393,968)
Profit before taxation		8,342,287	6,201,403
Taxation	12	(2,687,930)	(1,935,154)
Profit after taxation		5,654,357	4,266,249
Earnings per share	13	124.27	93.76

**Balance Sheet**

As at 31 December 2008

ASSETS	Note	2008 Rwf'000	2007 Rwf'000
Cash in hand		3,817,445	4,967,215
Balances with National Bank of Rwanda	14	6,183,850	10,066,623
Held to maturity investments	15	4,494,583	26,079,025
Placements and balances with other banking institutions	16	25,050,666	23,198,949
Available for sale investments	17	340,108	514,995
Loans and advances to customers	18	72,094,224	48,658,768
Other assets	19	3,218,892	3,117,949
Intangible assets	20	13,069	18,054
Property and Equipment	21	5,558,552	5,235,024
TOTAL ASSETS		120,771,389	121,856,602

LIABILITIES			
Placements and balances due to other banking institutions	22	7,299,453	4,524,919
Deposits from customers	23	93,838,479	101,852,662
Other liabilities	24	2,104,379	1,083,431
Provisions		43,728	385,015
Deferred tax	12	555,201	-
Taxation	12	1,032,867	1,207,911
TOTAL LIABILITIES		104,874,107	109,053,938

EQUITY			
Share capital	25	5,005,000	5,005,000
Reserves	26	5,237,925	3,531,415
Profit for the year	27	<u>5,654,357</u>	<u>4,266,249</u>
		<u>15,897,282</u>	<u>12,802,664</u>
TOTAL LIABILITIES AND EQUITY		<u>120,771,389</u>	<u>121,856,602</u>

These financial statements were approved by the Board of Directors on 27 March 2009 and signed on its behalf by:


 Director


 Director



Statement of Changes In Equity

For the Year Ended 31 December 2008

	Share Capital Rwf '000	Legal reserves Rwf '000	Special reserves Rwf '000	Other reserves Rwf '000	Retained earnings Rwf '000	Profit Rwf'000	Dividends Rwf '000	Total Rwf '000
At 1 January 2007	1,500,000	983,854	1,069,088	3,455,060	4,304	2,962,960	-	9,975,266
Appropriation of profit	-	296,000	296,000	931,628	481	(2,962,960)	1,481,480	42,629
Dividends paid	-	-	-	-	-	-	(1,481,480)	(1,481,480)
Net profit for the year	-	-	-	-	-	4,266,249	-	4,266,249
Proposed dividend	-	-	-	-	-	-	-	-
Increase in share capital	3,505,000	-	-	(3,505,000)	-	-	-	-
At 31 December 2007	5,005,000	1,279,854	1,365,088	881,688	4,785	4,266,249	-	12,802,664
At 1 January 2008	5,005,000	1,279,854	1,365,088	881,688	4,785	4,266,249	-	12,802,664
Appropriation of profit	-	427,000	427,000	853,000	(490)	(4,266,249)	2,559,739	-
Dividends paid	-	-	-	-	-	-	(2,559,739)	(2,559,739)
Net profit for the year	-	-	-	-	-	5,654,357	-	5,654,357
At 31 December 2008	5,005,000	1,706,854	1,792,088	1,734,688	4,295	5,654,357	-	15,897,282

**Cash Flow Statement**

For the Year Ended 31 December 2008

Note	2008 Rwf '000	2007 Rwf '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	8,342,287	6,201,403
Adjustment for:		
Depreciation	736,434	374,135
Amortization of intangible assets	13,069	18,054
Dividends income	(48,576)	(30,474)
Reversal of overprovision for income tax	(96,754)	-
Provision for risks	-	(300,418)
Reversal of provisions on equity investments	(166,400)	-
cash flows generated from operating activities before changes in working capital	8,780,060	6,262,701
Loans and advances to customers	(23,435,456)	(10,817,672)
Other assets	(100,943)	(1,817,100)
Customer deposits	(8,014,183)	32,825,765
Other accounts payable	1,020,948	(1,415,113)
Cash flows (used by)/ generated from operations	(21,749,574)	25,038,581
Income taxes paid	(2,211,019)	(1,739,070)
NET CASH FLOWS (USED BY)/ FROM OPERATING ACTIVITIES	(23,960,593)	23,299,511
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of held to maturity investments	21,584,442	-
Purchase of held to maturity investments	-	(10,015,614)
Dividends received	48,576	30,474
Purchase of property and equipment	(1,059,962)	(2,047,827)
Purchase of intangible assets	(8,084)	(559)
NET CASH FLOWS FROM /(USED IN) INVESTING ACTIVITIES	20,564,972	(12,033,526)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(2,559,739)	(1,481,480)
Net cash flows to financing activities	(2,559,739)	(1,481,480)
Net (Decrease) / increase in cash and cash equivalents	(5,955,360)	9,784,505
Cash and cash equivalents at the beginning of the year	33,707,868	23,923,363
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	28 27,752,508	33,707,868



Notes to the financial statements

For the year ended 31 december 2008

1. GENERAL INFORMATION

Bank of Kigali SA is a financial institution licensed under the Law no 06/1998 on Commercial Enterprises in Rwanda. The Bank was incorporated on 22 December 1966 and it provides corporate and retail banking services in various parts of the country.

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

In 2007 new and revised accounting standards and interpretations became effective for the first time and have been adopted by the Bank, where relevant to its operations. This only resulted in changes in presentation and disclosures as follows:

IAS 1, 'Presentation of Financial Statements', requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank's objectives, policies

and processes for managing capital. These new disclosures are shown in Note 32.

IFRS 7, 'Financial Instruments: Disclosures', requires disclosures that enable users of the financial statements to evaluate the significance of the Bank's financial instruments and the nature and extent of risks arising from those financial instruments. These new disclosures are shown in note 33.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Bank's operations:

IFRIC 11- IFRS 2 Group and Treasury Share Transactions.

IFRIC 12-Service Concession Arrangements.
IFRIC 14- The limit on Defined Benefits Asset, Minimum Funding Requirements and their interaction

The Bank has not early adopted the following standard and interpretations that will be effective for the annual periods beginning on or after the following dates:

	Effective date
IFRS 8- Operating segments	1 January 2009
IAS 23 – Borrowing costs	1 January 2009
IFRIC 13- Customer Loyalty Programmes	1 January 2009
IAS 1 (Revised)- Presentation of Financial Statements	1 January 2009
IFRS 3 (Revised)- Business Combinations	1 January 2009
IFRS 2 Amendment- Consolidated and Separate Financial Statements	1 January 2009
IAS 32 and IAS 1 Amendment – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IFRS 1 and IAS 27 Amendment – Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate 2008 Improvements to IFRS	1 January 2009
IFRIC 15 – Agreement for the construction of real estate	1 January 2009



Notes to the financial statements

For the year ended 31 december 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing.

Interpretations Committee approved by the International Accounting Standards Committee (IASC) that remain in effect.

The financial statements are prepared on the historical cost basis except for measurement at fair value and impairment of certain financial assets. The financial assets are presented in Rwandan francs, and all values are rounded to the nearest thousand (Rwf '000) except where otherwise indicated.

(b) Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. Although these estimates are based on the management's knowledge of current events and actions, actual results ultimately may differ from those estimates. The most significant use of judgments and estimates are as follows:

(i) Impairment losses on loans and advances

The Bank has made provisions for bad and doubtful debts in accordance with the National Bank of Rwanda instruction no 03/2000 as follows:

<i>Sub standard loans</i>	20%
<i>Doubtful loans</i>	50%
<i>Loss loans</i>	100%

The interest income on non performing loans is suspended and not charged to the income statement until received.

(ii) Impairment of equity investments

The Bank treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

(c) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognized on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

(ii) Held-to-maturity financial investments

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition that are an integral part of the effective interest rate. The amortisation is recognized in the income statement.

(iii) Balances due from other banks and loans and advances to customers

Balances due from other banks and Loans and advances to customers are financial assets with fixed or determinable payments



Notes to the financial statements

For the year ended 31 december 2008

and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in the income statement in 'provision for doubtful debts'.

(iv) Available-for-sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognized directly in equity in the 'Fair value adjustment'. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement. Where the Bank holds more than one investment in the same security they are deemed to be disposed off on a first-in-first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividend earned holding available-for-sale financial investments are recognized in the income statement when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the income statement and removed from fair value adjustment account.

(v) Derecognition of financial assets and financial liabilities

Financial assets

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

The rights to receive cash flows from the asset have expired, or the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and

Either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially



Notes to the financial statements

For the year ended 31 december 2008

different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss in the Income Statement.

(vi) Determination of fair value

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price without any deduction for transaction costs.

(vii) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as change in arrears or economic conditions that correlate with defaults.

Due from banks and loans and advances to customers

As for amounts due from banks and loans and advances to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial

assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset but it is suspended. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered the recovery is credited to the 'Other income'.

Held-to-maturity financial investments

With respect to held-to maturity investments the Bank assesses individually whether there is objective evidence of



Notes to the financial statements

For the year ended 31 december 2008

impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the income statement

Available-for-sale financial investments

With respect to available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through income statement, increases in their fair value after impairment are recognized directly in equity.

(d) Recognition of income and expenses

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 recognised:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within interest income and interest expense in the income statement using the effective interest method.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Dividend income

Dividend income is recognized when the shareholders' right to receive payment is established

(e) Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation less loss on impairment. Depreciation is calculated on a reducing balance basis at annual rates estimated to write off carrying values of the property and equipment over their expected useful lives.

The annual depreciation rates in use are:

Building	5% p.a.
Computer equipment	50% p.a.
Motor vehicles	25% p.a.
Furniture and fittings	25% p.a.

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

(f) Foreign currency transactions

Transactions during the year are converted into Rwandan francs at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Rwandan francs at rates ruling at that date.



Notes to the financial statements

For the year ended 31 december 2008

The resulting differences from conversion and translations are dealt with in the income statement.

(g) Employee benefits

The Bank contributes to a statutory defined contribution pension scheme, the Caisse Sociale du Rwanda (CSR). Contributions are determined by local statute and are currently limited to 5% of the employees' gross salary. The Company's CSR contributions are charged to the income statement in the period to which they relate.

(h) Employee entitlements

The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

(i) Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation. Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

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

(j) Guarantees, acceptances and letters of credit

Guarantees, acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(k) Leases

Leases of leasehold land are classified as operating leases. The costs incurred to acquire the land are included in the financial statements as long term prepayments.

(l) Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is calculated on reducing balance basis at an annual rate of 50%.

(m) Cash and cash equivalents

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

(n) Dividends

Dividends are recognized as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are declared to await ratification by the shareholders.

(o) Impairment of non - financial assets The Bank assesses at each reporting date, or more frequently if events or change in circumstances indicate that the carrying value may be impaired, whether there is an indication that non-financial asset may be impaired; the bank makes an estimate of the asset's recoverable amount. Where 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.

(p) 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 to the amount of the obligation.

(q) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**Notes to the financial statements**

For the year ended 31 december 2008

4.	INTEREST INCOME	2008 Rwf '000	2007 Rwf '000
	Interest on ordinary accounts with banks	617,421	811,702
	Interest received from pension, borrowings and other debtors	204,824	723,794
	Income from transactions with other banks	19,797	17,070
	Interest on overdrawn accounts	1,796,046	1,233,187
	Interest on overdrafts	1,633,235	1,675,594
	Interest on equipment loans	509,751	487,422
	Interest on consumer loans	897,942	670,849
	Interest on mortgage loans	2,443,230	1,623,465
	Interest on other loans to customers	2,225,866	1,161,002
	Interest on financing commitments	404,731	301,488
	Other income from transactions with customers	<u>9,148</u>	<u>14,443</u>
		<u>10,761,991</u>	<u>8,720,016</u>

5.	INTEREST EXPENSE		
	Interest on transactions with other banks	63,742	38,174
	Interest on current accounts	252,596	269,885
	Interest on fixed deposits	1,543,593	1,350,162
	Interest on pension, borrowings and other debtors	<u>-</u>	<u>77,069</u>
		<u>1,859,931</u>	<u>1,735,290</u>



Notes to the financial statements

For the year ended 31 december 2008

6.	FEES AND COMMISSIONS	2008 Rwf '000	2007 Rwf '000
	Commissions on operation of accounts	194,017	175,152
	Commissions on payment facilities	681,461	515,267
	Commissions on loan service	104,272	79,524
	Other fees from services	<u>196,510</u>	<u>210,034</u>
		<u>1,176,260</u>	<u>979,977</u>

7.	INTEREST INCOME ON FINANCIAL INSTRUMENTS		
	Interest on assets held to maturity	<u>689,854</u>	<u>616,303</u>
		<u>689,854</u>	<u>616,303</u>

8.	FOREIGN EXCHANGE INCOME		
	Gain on foreign exchange	<u>2,584,758</u>	<u>2,160,551</u>
		<u>2,584,758</u>	<u>2,160,551</u>

9.	OTHER INCOME		
	Other income from banking activities	224,626	202,094
	Reversal of provision on equity investments	166,400	-
	Reversal of overprovision for income tax	96,754	-
	Rental income	219,323	25,525
	Other non banking income	<u>162,151</u>	<u>131,495</u>
		<u>869,254</u>	<u>359,114</u>

10.	PROVISION FOR DOUBTFUL DEBTS		
	Specific provisions for doubtful debts	(1,999,966)	(1,431,947)
	Write back of provisions for doubtful debts	<u>1,744,819</u>	<u>896,173</u>
		<u>(255,147)</u>	<u>(535,774)</u>

11.	OPERATING EXPENSES		
		2,501,087	2,350,957
	Staff costs	2,422,738	1,650,822
	Other operating expenses	<u>749,503</u>	<u>392,189</u>
	Depreciation and amortisation	<u>5,673,328</u>	<u>4,393,968</u>

**Notes to the financial statements**

For the year ended 31 december 2008

12. TAXATION	2008	2007
	Rwf '000	Rwf '000
Current taxation		
Balance brought forward	1,207,911	1,011,827
Tax charge for the year	2,132,729	1,935,154
Overprovision in prior year	(96,754)	-
Paid during the year	(2,211,019)	(1,739,070)
Tax payable	<u>1,032,867</u>	<u>1,207,911</u>
Deferred taxation		
At the start of the year	-	-
Deferred tax charge for the year	555,201	-
	<u>555,201</u>	<u>-</u>
The deferred tax liability has been provided on the taxable temporary differences between the tax bases of items of property, plant and equipment and their carrying values for financial reporting purposes at the current corporation tax of 30%.		
INCOME STATEMENT		
Current tax at 30% on the taxable profit for the year	2,132,729	1,935,154
Deferred tax	555,201	-
	<u>2,687,930</u>	<u>1,935,154</u>
Reconciliation of taxation expense to tax based on accounting profit		
Accounting profit before taxation	8,342,287	6,201,403
Tax applicable rate of 30%	2,502,686	1,860,421
Overprovision in prior years	(96,754)	-
Tax effects on items not deducted for tax	281,998	74,733
	<u>2,687,930</u>	<u>1,935,154</u>
13. EARNINGS PER SHARE		
The earnings per share is calculated on the profit after taxation attributable to shareholders of Rwf 5,654,357,000 (2007: Rwf. 4,266,249,000) and on the 45,500 ordinary shares in issue during the year.		
14. BALANCES WITH NATIONAL BANK OF RWANDA		
Current account	2,183,850	5,166,623
Short term investment	4,000,000	4,900,000
	<u>6,183,850</u>	<u>10,066,623</u>
15. HELD TO MATURITY INVESTMENTS		
Treasury bills and bonds		
Maturing within 30 days	-	8,566,279
Maturing within 90 days	-	16,179,065
Maturing after one year	4,494,583	270,182
Treasury bonds maturing in one year	-	69,821
Treasury bonds maturing after one year	-	993,678
	<u>4,494,583</u>	<u>26,079,025</u>
Treasury bills and treasury bonds are debt securities issued by the National Bank of Rwanda and are classified as held to maturity.		

**Notes to the financial statements**

For the year ended 31 december 2008

16. PLACEMENTS AND BALANCES WITH OTHER BANKING INSTITUTIONS	2008 Rwf '000	2007 Rwf '000
Due from local banks	259,447	138,890
Due from correspondent banks	5,154,619	3,307,452
Short term investments in foreign banks	<u>19,636,600</u>	<u>19,752,607</u>
	<u>25,050,666</u>	<u>23,198,949</u>

17. AVAILABLE FOR SALE INVESTMENTS		
Banque Rwandaise de Développement S.A	21,975	21,975
Banque de l'Habitat du Rwanda S.A	75,000	75,000
Banque de Développement des Etats de Grands Lacs S.A	5,000	5,000
Magasins Généraux du Rwanda S.A	5,000	5,000
Société des Transports Internationaux	20,000	20,000
King Faycal Hospital	46,733	46,733
Société Interbancaire de Monétique et de Télécompensation	<u>166,400</u>	<u>341,287</u>
	<u>340,108</u>	<u>514,995</u>

All the investments are between 0.87% and 12.5% and are in organizations domiciled and incorporated in Rwanda.

Banque Rwandaise de Développement S.A, Banque de l'Habitat du Rwanda S.A and Banque de Développement des Etats des Grands Lacs S.A are all in the financial sector. Magasins Generaux du Rwanda (MAGERWA) S.A is a warehousing company and Société des Transports Internationaux is in the Transport Sector and Netcare King Faysal Hospital is in the health sector.

Société interbancaire de Monétique et de Télécommunications is in electronic banking sector.

Available for sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate and they are not traded in any active market.

18. LOANS AND ADVANCES TO CUSTOMERS		
a) Loans and advances to customers (gross)	78,810,798	56,627,246
Less – Provision (Note 18 (b))	<u>(6,716,574)</u>	<u>(7,968,478)</u>
Loans and advances to customers net of provisions	<u>72,094,224</u>	<u>48,658,768</u>
b) Provisions		
Provisions	3,791,537	4,509,271
Suspended interest	<u>2,925,037</u>	<u>3,459,207</u>
	<u>6,716,574</u>	<u>7,968,478</u>
c) Non-performing loans and advances		

Non-performing loans and advances on which interest has been suspended amount to Rwf 12 million (2007: Rwf 10.9 million). Interest income continues to be accrued on the account balances based on the original effective interest rate but it is suspended.



Notes to the financial statements

For the year ended 31 december 2008

18.	LOANS AND ADVANCES TO CUSTOMERS	2008 %	2007 %
d)	Lending concentration		
Economic sector risk concentrations within the customer loan portfolio were as follows:			
	Manufacturing	14	15
	Construction	26	27
	Commerce, restaurants and hotels	49	33
	Transport and communication	8	9
	Others	<u>3</u>	<u>16</u>
		<u>100</u>	<u>100</u>
19.	OTHER ASSETS	Rwf '000	Rfw '000
a)	Total other assets		
	Staff advances	20,920	195
	Other assets	3,636	89,663
	Suspense account (Note 19 b)	<u>3,194,336</u>	<u>3,028,091</u>
		<u>3,218,892</u>	<u>3,117,949</u>
b)	Suspense account		
	Accounts in transit	1,947,256	2,237,763
	Receivable income	176,173	334,264
	Prepaid expenses	27,293	30,516
	Clearing effects	846,139	271,524
	Other	<u>197,475</u>	<u>154,024</u>
		<u>3,194,336</u>	<u>3,028,091</u>
20.	INTANGIBLE ASSETS		
	COST		
	At 1 January	106,023	105,464
	Additions	<u>8,084</u>	<u>559</u>
	At 31 December	<u>114,107</u>	<u>106,023</u>
	AMORTISATION		
	At 1 January	87,969	69,915
	Charge for the year	<u>13,069</u>	<u>18,054</u>
	At 31 December	<u>101,038</u>	<u>87,969</u>
	NET BOOK VALUE	<u>13,069</u>	<u>18,054</u>
	Intangible assets represent computer software in use at the bank.		

Notes to the financial statements

For the year ended 31 december 2008

21. PROPERTY AND EQUIPMENT

	Land	Building	Computer equipments	Motor vehicles	Furniture and fittings	Work in progress	Total
	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000
COST							
At 1 January 2008	23,537	1,294,916	570,907	164,372	1,146,277	4,317,256	7,517,265
Additions	7,635	112,326	111,674	147,064	681,263	-	1,059,962
Reclassifications	-	4,317,256	-	-	-	(4,317,256)	-
At 31 December 2008	31,172	5,724,498	682,581	311,436	1,827,540	-	8,577,227
DEPRECIATION							
At 1 January 2008	-	978,163	440,734	111,493	751,851	-	2,282,241
Charge for the year	-	285,310	120,923	49,986	280,215	-	736,434
At 31 December 2008	-	1,263,473	561,657	161,479	1,032,066	-	3,018,675
NET BOOK VALUE							
At 31 December 2008	31,172	4,461,025	120,924	149,957	795,474	-	5,558,552
At 31 December 2007	23,537	316,753	130,173	52,879	394,426	4,317,256	5,235,024

**Notes to the financial statements**

For the year ended 31 december 2008

22.	PLACEMENTS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	2008 Rwf '000	2007 Rwf '000
	Due to local banks	1,811,364	2,565,408
	Term deposits	5,045,000	1,445,000
	Finance borrowings	<u>443,089</u>	<u>514,511</u>
		<u>7,229,453</u>	<u>4,524,919</u>
23.	DEPOSITS FROM CUSTOMERS		
	Demand deposits	65,019,968	69,683,361
	Term deposits	23,732,944	27,195,004
	Other current accounts	1,641,663	528,050
	Collateral deposits	1,654,832	3,490,614
	Payables in transit	1,078,856	458,110
	Interest payable	<u>710,216</u>	<u>497,523</u>
		<u>93,838,479</u>	<u>101,852,662</u>
24.	OTHER LIABILITIES		
a)	Total other liabilities		
	Amount due to Government	144,619	-
	Amounts due to pension funds	47,549	60,260
	Amounts due to employees	10,283	7,399
	Other payable accounts	7,345	15,106
	Suspense account (Note 24 b)	<u>1,894,583</u>	<u>1,000,666</u>
		<u>2,104,379</u>	<u>1,083,431</u>
b)	Suspense account		
	Accrued expenses	1,283,949	934,563
	Inter branch accounts	4,598	9,157
	Other	<u>606,036</u>	<u>56,946</u>
		<u>1,894,583</u>	<u>1,000,666</u>
25.	SHARE CAPITAL		
	Authorised:		
	45,500 ordinary shares	<u>5,005,000</u>	<u>5,005,000</u>
	Issued and fully paid:		
	45,500 ordinary shares	<u>5,005,000</u>	<u>5,005,000</u>

**Notes to the financial statements**

For the year ended 31 december 2008

26. RESERVES	2008 Rwf '000	2007 Rwf '000
Legal reserves	1,706,854	1,279,854
Special reserves	1,792,088	1,365,088
Other reserves	<u>1,738,983</u>	<u>886,473</u>
	<u>5,237,925</u>	<u>3,531,415</u>

Rwandan legislation requires companies to build up at least 10% of their share capital as a legal reserve. The balance presented above was transferred to legal reserves from the retained earnings as at 31 December 2008.

The Memorandum and Articles of Association requires the Bank to build up at least 10% of the net book value of the non current assets by transferring each year 20% of the profit for the year from the retained earnings to special reserves.

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

27. PROFIT FOR THE YEAR

This relates to the profit for the year of Rwf 5,654,357,000 (2007: Rwf 4,266,249,000) not yet appropriated by the shareholders.

28. CASH AND CASH EQUIVALENTS

For purpose of cash flow statement, cash and cash equivalents comprise the following:

Cash in hand	3,817,445	4,967,215
Balances with National Bank of Rwanda	6,183,850	10,066,623
Placements and balances with other banks	25,050,666	23,198,949
Due to other banking and financial institutions	<u>(7,299,453)</u>	<u>(4,524,919)</u>
	<u>27,752,508</u>	<u>33,707,868</u>

29. CONTINGENT LIABILITIES

Acceptances and Letters of Credit issued	18,271,347	11,775,471
Guarantees Commitments issued	8,403,161	6,518,279
Other Off Balance Sheet commitments	<u>454,312</u>	<u>175,332</u>
	<u>27,128,820</u>	<u>18,469,082</u>

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

The bank is also party to various legal proceedings from default customers for a total amount of Rwf 1,514,168,198. Having regard 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.



Notes to the financial statements

For the year ended 31 december 2008

30. CAPITAL COMMITMENTS

The Bank has Capital commitments amounting to Rwf 220,526,138 relating to expected capital expenditure to be incurred in opening branches in Kayanza and Kabuga.

31.	RELATED PARTY TRANSACTIONS	2008 Rwf '000	2007 Rwf '000
(i)	Loans and advances to employees	1,388,466	821,392
(ii)	Loans and advances to directors and their associates	<u>61,448</u>	<u>45,815</u>
		<u>1,449,914</u>	<u>867,207</u>
	Deposits from directors and shareholders	<u>9,863,236</u>	<u>12,711,001</u>
		<u>9,863,236</u>	<u>12,711,001</u>
	Directors emoluments	12,509	5,305
	Key Management Compensation	<u>361,123</u>	<u>327,579</u>
		<u>373,632</u>	<u>332,884</u>

32. CAPITAL MANAGEMENT

Regulatory capital

The National Bank of Rwanda (BNR) sets and monitors capital requirements for the banking industry as a whole. BNR has set among other measures, the rules and ratios to monitor capital adequacy of banks.

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

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

The bank has complied with capital requirements.

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

Net worth	15,897,289	10,242,914
Total risk weighted assets	106,414,729	72,913,919
Capital adequacy ratio	14.94%	14%
Minimum capital required	10,641,474	7,291,392
Excess	5,255,809	2,951,522



Notes to the financial statements

For the year ended 31 december 2008

33. RISK MANAGEMENT

Risk management strategy using financial instruments

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and seeks to earn above-average interest margins by investing these funds in high-quality assets. The company seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

In order to manage liquidity and increase interest income the Bank takes positions in the inter bank market. The Board has set trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Risk management framework

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market risks, operational risks, capital/solvency risks, legal and compliance risks and interest rate risks. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Bank's financial performance.

The Board of Directors (the board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various committees, which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees report regularly to the Board on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

(a) Credit risk

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

Management of credit risk

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

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

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



Notes to the financial statements

For the year ended 31 december 2008

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

- 1) Review of current portfolio, distribution, profitability and quality;
- 2) Target markets;
- 3) A review of economic environment and willingness to trade with various economic sectors;
- 4) Its credit appetite;
- 5) Aggregate loan for the bank as a proportion of total assets;
- 6) Balance sheet and profit and loss budgets.

The Board is responsible for approving the Credit Risk Strategy.

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

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

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

Exposure to credit risk

Loans and advances to customers	2008 Rwf '000	2007 Rwf '000
Carrying amount		
Non performing loans		
Class 3: Substandard	3,002,209	1,905,377
Class 4: Doubtful	576,048	419,866
Class 5: Loss	<u>5,602,915</u>	<u>5,165,117</u>
Gross amount	9,181,173	7,490,360
Allowance for impairment	<u>3,791,537</u>	<u>4,509,271</u>
Carrying amount	<u>5,389,636</u>	<u>2,981,089</u>

Loans and advances classified as 3, 4 and 5 in the Banks' internal credit risk grading system are considered non performing. These are advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. Specific provisions are made on these classes.

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

(b) Liquidity risk

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

**Notes to the financial statements**

For the year ended 31 december 2008

33. RISK MANAGEMENT (Continued)**(b) Liquidity risk (Continued)****Management of liquidity risk**

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

Management attempts to achieve a balance between the need to provide for liquidity and achieve profitability.

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

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

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

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

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to total liquid liabilities.

Details of the reported Bank ratio of net liquid assets to total liquid liabilities at the reporting date and during the reporting year were as follows:

	2008 Rwf '000	2007 Rwf '000
Total liquid assets	72,860,290	79,447,462
Total liquid liabilities	73,409,094	76,859,588
Liquidity ratio	99.3%	103.4%
Minimum liquidity ratio required	100%	100%

Instruction no. 04/2000 of 29 March 2000 issued by National Bank of Rwanda relating to 'liquidity ratio of banks and other financial institutions' requires banks and other financial institutions that accept deposits from the public to maintain a liquidity ratio of 100%. As at 31 December 2008, the Bank's liquidity ratio was 99.3%. Management is considering various options that will increase liquidity ratio to the stipulated level.

Notes to the financial statements

For the year ended 31 december 2008

33 RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Management of liquidity risk (continued)

The maturity risk profile of the bank as at 31 December 2008 was as follows (amounts in Rwf '000)

Assets	Up to one month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Cash and balances with BNR	10,001,295	-	-	-	-	-	10,001,295
Investment in Government bonds	-	-	-	-	4,494,583	-	4,494,583
Investment with other banks	25,050,666	-	-	-	-	-	25,050,666
Net advances to customers	21,158,191	608,968	1,141,630	2,135,550	23,969,642	23,080,243	72,094,224
Other investments	-	-	-	-	-	340,108	340,108
Other assets	3,218,892	-	-	-	-	-	3,218,892
Property and equipments	-	-	-	-	-	5,571,621	5,571,621
Total assets as at 31 December 2008	59,429,043	608,968	1,141,630	2,135,550	28,464,225	28,991,972	120,771,399
Liabilities							
Deposits and balances with other banks	3,289,453	5,000	1,500,000	2,505,000	-	-	7,299,453
Customer deposits	76,577,281	5,004,481	5,304,019	6,952,698	-	-	93,838,479
Tax liabilities	-	-	1,733,687	-	-	-	1,733,687
Other accounts payable	1,959,760	-	-	-	-	-	1,959,760
Provisions	43,728	-	-	-	-	-	43,728
Total liabilities as at 31 December 2008	81,870,222	5,009,481	8,426,039	9,457,698	-	-	104,874,107
Owner's equity as at 31 December 2008	-	-	-	-	-	15,897,282	15,897,282
Maturity Gap for 2008	(22,441,179)	(4,400,513)	(7,395,076)	(7,322,148)	28,464,225	13,094,690	-
Off balance sheet gap 2008	25,958,024	5,781,277	1,412,803	3,344,797	11,260,341	28,055,943	75,813,185



Notes to the financial statements

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33 RISK MANAGEMENT (Continued)

(c) Market risk

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

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

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

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

Interest risk exposure

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

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

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

Asset and Liability Committee requires frequent reviews of scenarios to examine the impact of large interest rate movements. The interest sensitive risk profile of the bank as at 31 December 2008 (Rwf '000)was as follows:

Notes to the financial statements

For the year ended 31 december 2008

33 RISK MANAGEMENT (Continued)

(c)	Market risk (continued)							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
Cash and balances with BNR	4,000,000	-	-	-	-	-	6,001,295	10,001,295
Investment in Government bonds	-	-	-	-	3,671,981	822,602	-	4,494,583
Investment with other banks	19,636,600	-	-	-	-	-	5,414,066	25,050,666
Net advances to customers	-	-	-	27,065,338	20,348,607	24,680,279	-	72,094,224
Other investments	-	-	-	-	-	-	340,108	340,108
Other assets	-	-	-	-	-	-	3,218,892	3,218,892
Property and equipments	-	-	-	-	-	-	5,571,621	5,571,621
Sensitive assets as at 31 December 2008	23,636,600	1,554,744	3,082,111	27,065,338	24,020,588	25,502,881	20,545,982	120,771,389
Deposits and balances from other banks	-	-	-	-	5,045,000	-	2,254,453	7,299,453
Customer term deposits	5,340,116	1,554,744	3,082,111	13,755,973	-	-	70,105,535	93,838,479
Tax liabilities	-	-	-	-	-	-	1,732,687	1,732,687
Other accounts payable	-	-	-	-	-	-	1,959,760	1,959,760
Provisions	-	-	-	-	-	-	43,728	43,728
Sensitive liabilities as at 31 December 2008	5,340,116	1,554,744	3,082,111	13,755,973	5,045,000	-	76,096,163	104,874,107
Owner's equity as at 31 December 2008	-	-	-	-	-	-	15,897,282	15,897,282
Sensitive gap as 31 December 2008	18,296,484	(1,554,744)	(3,082,111)	13,309,365	18,975,588	25,502,881	(55,550,181)	-
Cumulative gap	18,296,484	16,741,740	13,659,629	26,968,994	45,944,582	71,447,463	15,897,282	-



Notes to the financial statements

For the year ended 31 december 2008

33. RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Foreign currency exchange risk

The Bank records transactions in foreign currencies at the rates in effect at the date of the transaction. The Bank retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the balance sheet date. All the gains or losses arising from the changes in the currency exchange rates are accounted for in the income statement. The foreign currency sensitive risk profile of the bank as at 31 December 2008 was as follows (amounts in Rwf '000):

Notes to the financial statements

For the year ended 31 december 2008

33 RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Foreign currency risk (Continued)

Assets	Rwf	USD	JPY	CHF	GBP	EUR	BIF	Others	Total
Cash and balances with BNR		6,348,920	3,008,544	-	44,645	66,281	523,445	-	9,460
Investment in Government bonds		4,494,583	-	-	-	-	-	-	4,494,583
Investment with other banks		112,895	18,842,808	4,792	84,084	216,759	5,755,745	238	33,345
Net advances to customers		71,672,179	422,045	-	-	-	-	-	72,094,224
Other investments		340,108	-	-	-	-	-	-	340,108
Other assets		2,516,734	420,901	-	59	1,175	279,747	-	276
Property and equipments		5,571,621	-	-	-	-	-	-	5,571,621
Total assets as at 31/12/2008		91,057,040	22,694,298	4,792	128,788	284,215	6,558,937	238	43,081
Liabilities									
Deposits and balances from other banks		7,035,548	210,664	-	-	13,419	39,822	-	-
Customer term deposits		64,971,239	21,617,569	49	84,309	224,575	6,939,514	-	1,224
Tax liabilities		1,732,687	-	-	-	-	-	-	-
Other accounts payable		1,753,796	198,949	-	53	1,136	5,552	-	274
Provisions		43,728	-	-	-	-	-	-	43,728
Total liabilities as at 31/12/2008		75,536,998	22,027,182	49	84,362	239,130	6,984,888	-	1,498
Owner's equity									
Share capital		5,005,000	-	-	-	-	-	-	5,005,000
Reserves		5,237,925	-	-	-	-	-	-	5,237,925
Net profit		5,654,357	-	-	-	-	-	-	5,654,357
Owner's equity as at 31/12/2008		15,897,282	-	-	-	-	-	-	15,897,282
Foreign currency gap as at 31/12/2008		N/A	667,116	4,743	44,426	45,085	(425,951)	238	41,583



Notes to the financial statements

For the year ended 31 december 2008

33. RISK MANAGEMENT (Continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business units.

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

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

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

(e) Capital/Solvency risk

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

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

The Board ensures that:

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

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



Notes to the financial statements

For the year ended 31 december 2008

33. RISK MANAGEMENT (Continued)

(f) Legal and compliance risk

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

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

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

34. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted to disclose the tax payable.

35. CURRENCY

The financial statements are presented in Rwandan franc and are rounded to the nearest thousands (Rwf '000)

36. INCORPORATION

The Bank is incorporated and domiciled in Rwanda.

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of the Bank's and SIMTEL's country wide
network of 27 ATMs**





Bank of Kigali

**VISA. IT'S ALL
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VISA INTERNATIONAL BK

Provide travellers with secure payment options.

- Visa card is used by millions of consumers worldwide.
- Visa helps people to better manage their finances.
- It's safer than carrying cash and easier than writing a check.

Characteristics:

1. Convenient : access to funds 24 hours a day, 7 days a week, either through an ATM or more than 24 merchants worldwide.
2. Safety:
 - a. Cardholders can make purchases or get cash when they need it, rather than carrying large sums of cash.
 - b. Access to funds on a visa card is protected by a PIN code at ATMs, by a cardholder's signature and his PIN code at merchant locations.
3. Better financial management: bring greater financial clarity.



Accepted here

 **Bank of Kigali**

