BANK OF AFRICA – UGANDA

BANK OF AFRICA
UGANDA
GROUPE BANK OF AFRICA
www.boauganda.com

HEAD OFFICE

BANK OF AFRICA – UGANDA
BANK OF AFRICA House – Plot 45, Jinja Road – P.O. Box 2750 – Kampala – UGANDA
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Swift: AFRIUGKA – E-mail <boa@boauganda.com>

KAMPALA BRANCHES

MAIN BRANCH
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Phone: (256) 414 302001 – Fax: (256) 414 230669

BBIRA MINI-BRANCH
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Plot 559, Ggaba Road – P.O. Box 2750 – Kampala
Phone: (256) 414 501212 – Fax: (256) 414 501211

KAMPALA ROAD BRANCH
Plot 48, Kampala Road – P.O. Box 2750 – Kampala
Phone: (256) 414 259915 – Fax: (256) 414 259915

KAWEMPE BRANCH
Plot 165, Bombo Road – P.O. Box 2750 – Kampala
Phone: (256) 414 567240 – Fax: (256) 414 567240

KOLOLO BRANCH
Plot 9, Cooper Road (Kisementi) – P.O. Box 2750
Kampala
Phone: (256) 414 302790 – Fax: (256) 414 255417

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Plot 1329/1330, Portbell Road, Luzira
P.O. Box 2750 – Kampala
Phone: (256) 414 220380 – Fax: (256) 414 220380

MUKONO BRANCH
Plot 13, Kampala Road – P.O. Box 2750 – Kampala
Phone: (256) 414 291092 – Fax: (256) 414 291075

NAKIVUBO BRANCH
Plot 15, Nakivubo Road, Kikuubo – P.O. Box 2750
Kampala
Phone: (256) 414 252050 – Fax: (256) 414 252049

NALUKOLONGO MINI-BRANCH
Plot 4, Wankulukuku Road – Nalukolongo
P.O. Box 2750 – Kampala
Phone: (256) 414 274923 – Fax: (256) 414 274923

NAMASUBA BRANCH
Plot 4010, Entebbe Road – Freedom City Mall
Namasuba P.O. Box 2750 – Kampala
Phone: (256) 414 501449 – Fax: (256) 414 501449

NANSANA BRANCH
Plot 5390, Hoima Road – Nansana Town Council
P.O. Box 2750 – Kampala
Phone: (256) 716 800118 – Fax: (256) 414 230902

NATEETE BRANCH
Plot 1/2, Old Masaka Road – Nateete
P.O. Box 2750 – Kampala
Phone: (256) 414 271424 – Fax: (256) 414 271424

NDEEBA BRANCH
Plot 1024, Masaka Road, Ndeeba – P.O. Box 2750
Kampala
Phone: (256) 414 270810 – Fax: (256) 414 270810

NTINDA BRANCH
Plot 49, Nakawa Road, Ntinda – P.O. Box 2750
Kampala
Phone: (256) 414 288779 – Fax: (256) 414 288782

OASIS BRANCH
Plot 88/94, Yusuf Lule Road – Oasis Mall Nakumatt
P.O. Box 2750 – Kampala
Phone: (256) 417 130114 – Fax: (256) 417 130113

PARK BRANCH
Plot 40/46, Ben Kiwanuka Street – Mukwano Centre
P.O. Box 2750 – Kampala
Phone: (256) 414 507145 – Fax: (256) 414 264351

RWENZORI MINI-BRANCH
Plot 1, Lumumba Avenue – House-Collection Centre
Rwenzori House – P.O. Box 3966 – Kampala
Phone: (256) 414 349043 / 234201 / 2

WANDEGEYA BRANCH
Plot 85, Bombo Road – KM Plaza, Opposite Shell
Wandegeya – P.O. Box 2750 – Kampala
Phone: (256) 414 530057 – Fax: (256) 414 530486

REGIONAL BRANCHES

ARUA BRANCH
Plot 19, Avenue Road – P.O. Box 894 – Arua Town
Phone: (256) 476 420482 – Fax: (256) 476 420476

ENTEBBE BRANCH
Plot 16, Kampala Road – Entebbe Town
P.O. Box 2750 – Kampala
Phone: (256) 414 322581 – Fax: (256) 414 322607

FORT PORTAL BRANCH
Plot 14, Bwamba Road – P.O. Box 359
Fort Portal Town
Phone: (256) 483 422025 – Fax: (256) 483 422025

GULU BRANCH
Plot 11, Awere Road – P.O. Box 921 – Gulu Town
Phone: (256) 471 432622 – Fax: (256) 471 432627

HOIMA BRANCH
Plot 13, Wright Road – Hoima Town Council
P.O. Box 345 – Hoima
Phone: (256) 465 440099 – Fax: (256) 465 440099

JINJA MAIN BRANCH
Plot 1, Main Street – Jinja Municipal Council
P.O. Box 2095 – Jinja
Phone: (256) 434 121013 – Fax: (256) 434 123113

JINJA CLIVE ROAD BRANCH
Plot 18, Clive Road East – Jinja Municipal Council
P.O. Box 2095 – Jinja
Phone: (256) 434 120093 – Fax: (256) 434 120092

KALONGO MINI-BRANCH
Plot 16, Kalongo Road – P.O. Box 929 – Lira
Phone: (256) 717 800546 – Fax: (256) 473 420049

LIRA BRANCH
Plot 1A, Balla Road – Town View Hotel
P.O. Box 292 – Lira Town
Phone: (256) 473 420050 – Fax: (256) 473 420049

MBALE BRANCH
Plot 26, Cathedral Avenue – Mbale Municipal
P.O. Box 553 – Mbale
Phone: (256) 454 432255 – Fax: (256) 454 432256

MBARARA BRANCH
Plot 1, Mbaguta Road – P.O. Box 1163 – Mbarara
Phone: (256) 485 420270 – Fax: (256) 485 420173

PATONGO BRANCH
Plot 33, Owiny Dollo – Patongo Town Council
P.O. Box 929 – Lira
Phone: (256) 717 800546 – Fax: (256) 473 420049

RUBIRIZI BRANCH
Bamugaya House – Rubirizi Town Council
Kasese Road – P.O. Box 1163 – Mbarara
Phone: (256) 717 800577

FOCUSED ON DEVELOPMENT IN THE HEART OF AFRICA

BANK OF AFRICA – UGANDA

2012 Annual Report

BOA Group celebrates its 30th Anniversary

BANK OF AFRICA UGANDA

GROUPE BANK OF AFRICA

Table of contents

BANK OF AFRICA Group celebrates its 30th Anniversary

This year we are celebrating our Group's 30th Anniversary.

BANK OF AFRICA was established at a time when the West African banking sector experienced serious difficulties. The founder's goal of the first BANK OF AFRICA, BOA-MALI, created in 1983 and then headed by Paul DERREUMAUX, was to fill a gap by creating a private African bank, with African capital, and dedicated to serving the African economy.

The original shareholders felt keenly the immense potential of a project that would help bring Africa together for a better future.

Investors – both private and public, both national and international – had also placed their trust in this project and helped it to develop into what it is today – a group with a presence in 15 African countries through 16 commercial banks as well as numerous financial companies.

The majority shareholder, BMCE Bank, has put at the disposal of BOA Group its multiple skills, as well as its international and continental experience. Alongside other shareholders, it also provides the necessary capital for BOA to develop and expand throughout the continent.

All the BOA subsidiaries have now adopted BMCE Bank's business model, which is based on extending banking services to citizens on a large-scale and assisting both private and public economic players with advice and financing to manage their companies and implement their projects.

Almost 5,000 staff members of all nationalities conduct their work with conviction and commitment. These women and men comprise teams that have expanded as the Group has developed, by knowing how to make the most of their differences, in order to become even stronger and more effective together.

But BOA is above all the hundreds of thousands of customers – retail clients of all classes and ages, companies of all sizes and economic sectors, associations, public services, investors, industrialists, and entrepreneurs – who each day place their trust in its professionalism.

This year, as we celebrate the Group's 30 years of existence, I would like to pay tribute to our shareholders, those who were with us from the start and those who joined later; to our hundreds of thousands of customers; to our 5,000 staff members; and to the authorities in each host country who provide us with their continuous support.

Thank you for your trust,
thank you for your work,
thank you for your support,
thank you, everyone,
and long live the BANK OF AFRICA Group!

Mohamed BENNANI

Chairman and Managing Director

Photo: © E. Legouhy

30 years of growth and expansion

Bank network

1983 BANK OF AFRICA – MALI

15 Branches and 1 Business Centre in Bamako.
8 Regional Branches and 13 Local Branches.

1990 BANK OF AFRICA – BENIN

22 Branches, 1 Business Centre and 2 Port Branches in Cotonou.
21 Regional Branches.

1994 BANK OF AFRICA – NIGER

Created in 1989: NIGERIAN INTERNATIONAL BANK (NIB). Integrated into BOA network in 1994.

8 Branches in Niamey.
8 Regional Branches.

1996 BANK OF AFRICA – CÔTE D'IVOIRE

Created in 1980: BANAFRIQUE.
Integrated into BOA network in 1996.

13 Branches and 1 Business Centre in Abidjan.
8 Regional Branches and 1 Local Branch.

1998 BANK OF AFRICA – BURKINA FASO

14 Branches and 1 Business Centre in Ouagadougou.
13 Regional Branches.

1999 BANK OF AFRICA – MADAGASCAR

Created in 1989: BANKIN'NY TANTSAHA MPAMOKATRA (BTM) / National Bank for Rural Development.
Integrated into BOA network in 1999.

21 Branches in Antananarivo.
56 Regional Branches.

2001 BANK OF AFRICA – SENEGAL

17 Branches and 1 Business Centre in Dakar.
10 Regional Branches.

2004 BANQUE DE L'HABITAT DU BENIN

2 Branches in Cotonou.

2004 BANK OF AFRICA – KENYA

Created in 1981: BANQUE INDOSUEZ Kenyan Branch > CREDIT AGRICOLE–INDOSUEZ > CALYON.
Incorporated under Kenyan law, integrated as a subsidiary into BOA network in 2004.

14 Branches in Nairobi.
12 Regional Branches.

2006 BANK OF AFRICA – UGANDA

Created in 1985: SEMBULE INVESTMENT BANK Ltd > ALLIED BANK. Integrated into BOA network in 2006.

20 Branches in Kampala.
13 Regional Branches.

2007 BANK OF AFRICA – TANZANIA

Created in 1995: EURAFRICAN BANK – TANZANIA Ltd (EBT). Integrated into BOA network in 2007.

10 Branches in Dar es Salaam.
9 Regional Branches.

2008 BANQUE DE CRÉDIT DE BUJUMBURA

Created in 1909 in Brussels: BANQUE DU CONGO BELGE (BCB). 1922: BCB Branch in Usumbura, Burundi. 25 July 1964: BANQUE DE CREDIT DE BUJUMBURA (BCB). Integrated into BOA network in 2008.

7 Branches and 3 Counters in Bujumbura.
12 Regional Branches and 2 Counters in Provinces.

2010 BANK OF AFRICA – RDC

7 Branches in Kinshasa.
1 Regional Branch.

2010 BANK OF AFRICA – MER ROUGE

Created in 1908: BANQUE INDOSUEZ MER ROUGE (BIRM). Integrated into BOA network in 2011.

3 Branches in Djibouti.

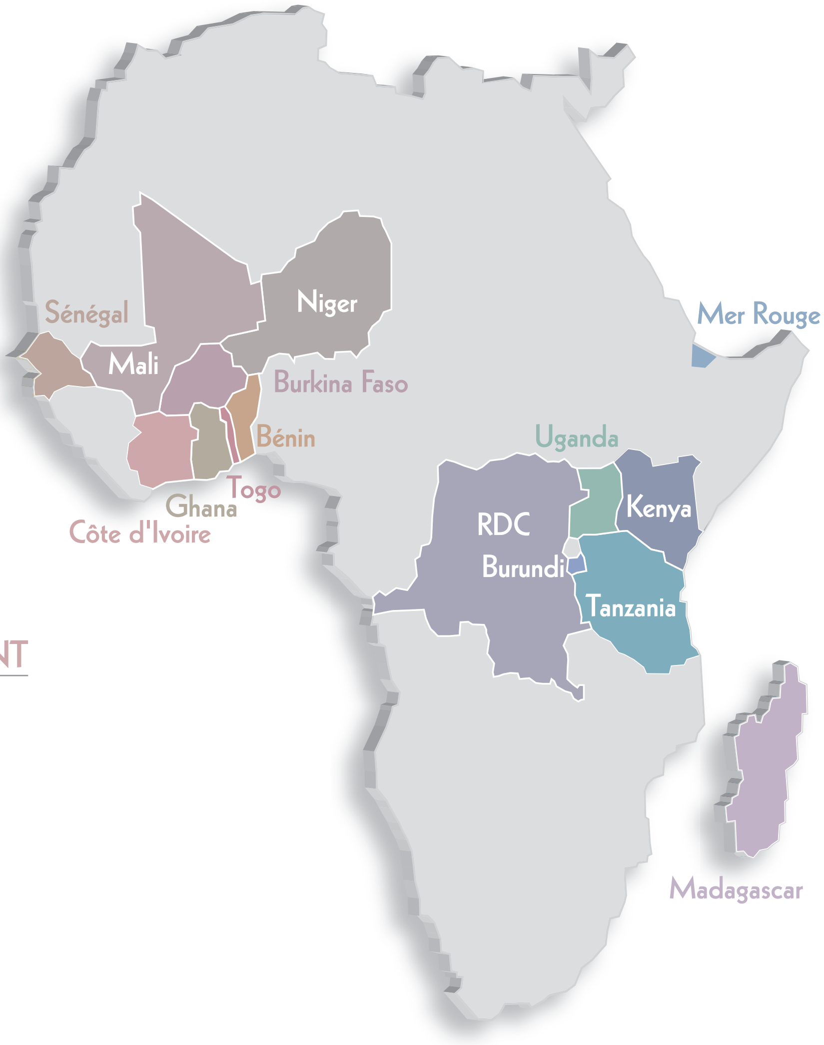
2011 BANK OF AFRICA – GHANA

Created in 1999: AMALBANK.
Integrated into BOA network in 2011.

14 Branches and 1 Business Centre in Accra.
5 Regional Branches.

2013 BANK OF AFRICA – TOGO

3 Branches in Lomé.



Subsidiaries

1997 ACTIBOURSE

Head Office in Cotonou.
1 Liaison Office in Abidjan.
1 contact in each BOA company.

2002 AÏSSA

Head Office in Cotonou.

2002 AGORA

Head Office in Abidjan.

2004 ATTICA

Head Office in Abidjan.

2009 BOA-ASSET MANAGEMENT

Head Office in Abidjan.

2010 BOA-FRANCE

4 Branches in Paris.
1 Branch in Marseille.

Other entities

1999 BANK OF AFRICA FOUNDATION

Head Office in Bamako.
Presence in 11 countries where the Group operates.

2000 BOA REPRESENTATIVE OFFICE

Head Office in Paris.

www.bank-of-africa.net

30 years of experience serving customers

A strong network*

5,000 people at the service of more than one million customers.

About 370 dedicated operating and service support offices in 16 countries.

A continuously expanding base of Automated Teller Machines and Electronic Payment Terminals, numbering around 450.

Close to 1,450,000 bank accounts.

A wide and varied offer

Full range of banking and financial services.

An attractive range of bank insurance products.

Tailored solutions for all financing issues.

Successful financial engineering.

A leading banking partner, BMCE BANK,

which is part of FinanceCom, a major Moroccan financial group.

Strategic partners, including:

PROPARCO,

INTERNATIONAL FINANCE CORPORATION (IFC - WORLD BANK GROUP),

WEST AFRICAN DEVELOPMENT BANK (BOAD),

NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO),

BELGIUM INVESTMENT COMPANY FOR DEVELOPING COUNTRIES (BIO),

and investment fund AUREOS.

Unique experience in Africa

Continuous development for 30 years.

(*): As at 31 December 2012

The commitments of the Group for 30 years

- ☛ Quality of customer service
- ☛ Dynamic, accessible staff
- ☛ Financial solidity
- ☛ Cohesive network
- ☛ Wide range of financing solutions
- ☛ Expertise in financial engineering
- ☛ Strong partners

Group turnover 2012: 451.7 million euros

Main products of the Bank

Accounts	Current Account (Local & Foreign Currency)
	Remunerated Current Account
	Salary Account
	Personal Current Account
Investment Products	Call Deposits Account
	Chama Account "VSLA"
	Children Savings Account 'Tots 2 Teenz Account'
	Classic Saving Account
	Forexave Account
	Ero Savings Account
	Gold Plus Account
	Ordinary Savings Account
	Fixed Deposit Account
	Reward Saving Account
	Schools Fees Account
	SESAME Savings Account
	"Wezimbe Youth Account"
	Student Account 'Young Mullah'
Electronic Banking	B-SMS / B-Phone
	B-Web
	SESAME ATM Card
M-Payment / M-Banking	MTN Mobile Money
Loans	Bridging Overdraft
	Instant Cash
	Motor Cycle Loan
	Motor Vehicle Loan
Transfers & Changes	Foreign Exchange
	MoneyGram
	Western Union
Complementary Products & Services	Banker's Cheques
	e-tax Payments
	Electronic Utility and Tuition Bill Payments
BOA Company Services	BOA-UGANDA thus offers a wide range of products and services to the attention of Corporates and SMEs, organizations, institutions and professionals.

Activity Report 2012

Comments from the Managing Director

The after-effects of the 2011 economic downturn that saw inflation soar to its highest since 1993 and the Shilling depreciate to its lowest against the United States Dollar ushered in 2012. Against this backdrop, Uganda's economy grew by 5.3%, a decline from 5.9% experienced in 2011. The stagnation in public spending, a weak current account and high commercial bank interest rates did not help the situation. Inflation shrunk from as high as 27% at the beginning of the year to 5.3% in December 2012, nearing the Central Bank's medium-term target of 5%. This led to a gradual cut by the Central Bank in their benchmark rate (CBR) from 22% at the beginning of the year to 12% in December 2012.

Whilst the Central Bank did its best to mop up excess liquidity in the first half of the year and loosen up in the second half, liquidity remained tight with deposit rates keeping up in double digits. The loosening of monetary policy between the second and third quarter of the year slowly translated to reduced commercial bank lending interest rates that spurred year-on-year growth in private sector credit from 4.4% in August to 12% in December 2012, though still lower than 24% at the beginning of the year.

Uganda's banking sector expanded further with the entry of two banks while the Central Bank revoked one license during the year bringing the total number of commercial banks in the market to 24. The addition of other banks has inevitably stiffened the existing competition for bankable customers. To defend and develop the deposit market share, several banks engaged in aggressive deposit mobilization initiatives through product innovation, direct sales, mobile money products and deposit campaigns with attractive rewards.

BOA-UGANDA was no exception to the above challenges. The tough economic climate notwithstanding, it maintained an expansion strategy and opened new branches in Hoima, Kalongo *(in part supported by a grant from the AgriBusiness Initiative Trust)* and at the SN Brussels office (Kampala) bringing the total number of branches to 32. In support of the Bank's growth strategies and to comply with the Central Bank's minimum capital requirements, the shareholders increased their capital contribution. Various products including the Young Mullah, Wezimbe, and Single Fee Account were launched amongst others. In addition to this, BOA-UGANDA launched a VSLA product in partnership with CARE International and individual voluntary savings groups. As a way of mobilizing more deposits, a campaign dubbed 'VIMBA RELOADED' was flagged off in the third quarter attaining a success rate exceeding 80% of expectation at its conclusion.

Turning to performance, BOA-UGANDA closed the year with Ushs 447 billion in total assets, a modest 4% growth over 2011 with loans and advances accounting for 54% of the asset book. On the positive side, the aforementioned initiatives and strategies contributed to the stability of the deposit base attaining Ushs 300 billion by year end, increasing their contribution in the total funding base from 72% to 77%. Net profit for the year increased by 56% to close at Ushs 9.75 billion a satisfactory overall result given the difficult economic environment and the high credit costs during the year.

Giving back to the communities in which we operate is our pride and at the same time an integral part to the Bank's strategic plan. To uplift financial knowledge, inculcate a savings culture and demystify misconceptions amongst communities about financial systems, we conducted a number of financial literacy sessions in northern Uganda that led a number of Village Saving Loan Associations to commence banking relations with us. Several business development workshops were also held in Kampala and Hoima for our SME clientele. Further social contributions included the installation of street finders in Hoima Town Council – one of the key towns in the oil belt – to make movement easier.

The outlook for 2013 is a bright one, especially now that the economic growth momentum is expected to pick up. Inflation is also expected to stabilize on the assumption that food and energy prices will not distort the picture as both have higher weights in the consumer price index. With the Central Bank's policies focusing on reducing the volatility of short-term interest rates, commercial lending rates are expected to stabilize. All these factors will gradually turn the tide in favor of the banking sector.

BOA-UGANDA is resolved to take advantage of any positives to enhance product and service offerings to her stakeholders.

The BOA-UGANDA team wishes to express its profound gratitude to its clients, development partners, board members and shareholders who have a great support throughout the challenging year of 2012. We hereby confirm this Bank's commitment to continue excellent customer service and collaboration as 2013 challenges and achievements unfold.

I would like to end by acknowledging the significant contribution made by the staff and trust that the team will strive towards meeting and exceeding client expectations in 2013.

Edigold MONDAY

Managing Director

Highlights 2012

January

Opened a new branch in Namasuba, Kampala.

April

Launched an electronic social security contribution collection system, an addition to the existing e-utility platform launched in 2011.

May

Opened a new mini-branch in Kalongo, Agago.

Participation in the 2012 BANK OF AFRICA network management meetings, in Marrakech, Morocco.

Launched an electronic payment system for settling electricity bills to enrich the list of e-commerce products offered.

July

Inaugurated the Vimba Reloaded Deposit Mobilization campaign that ran up to November aimed at promoting a savings culture and growing the Bank's deposit base.

Opened a new mini-branch at SN Brussels airline in Kampala.

August

Introduced a range of new products that included the Single Fee business and salary accounts, the School Fees collection account, the Young Mullah savings account targeting the youth, and the VSLA. Chama account targeting savings and loan associations.

October

Concluded on the drawdown of a further USD 4 millions on the European Investment Bank Private. Enterprise Finance Facility for on-lending to customers.

December

Participation in the 2012 BANK OF AFRICA Directors meetings, in Arusha, Tanzania.

1 - BOA-UGANDA MD addressing the crowd at the Vimba Reloaded grand draw.

2 - Vimba Reloaded Winner receiving the Ushs 65m cheque from BOA-UGANDA MD.

Key figures at 31/12/2012

Total Assets*	446,895

Activity

Deposits*	299,922
Loans*	240,468

Income

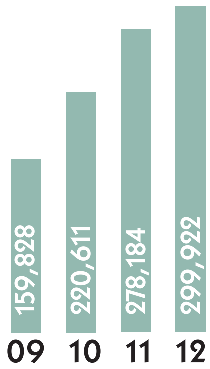
Net interest income*	32,649
Operating income*	49,542
Operating expenses*	(34,327)
Profit before tax*	8,852
Profit after tax*	9,749

Structure

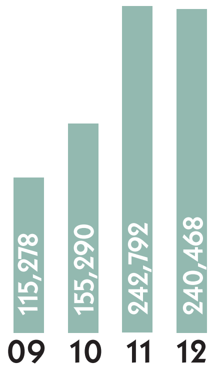
Number of employees	333

*In Ushs millions (Euro 1 = 3,570 Ushs as at 31st December 2012)

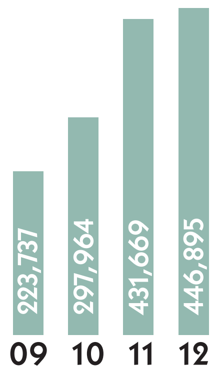
Evolution from 2009 to 2012



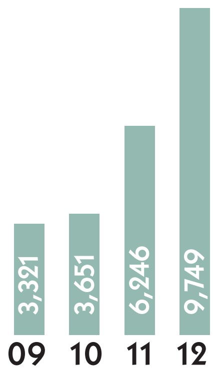
Total Deposits*



Total Loans*



Total Assets*



Profit after tax*

1 - A dance group entertains the crowd at the Young Mullah launch.

2 - BOA-UGANDA Executive Director Mr Arthur ISIKO addressing the crowd at the Kalongo Branch opening.

Corporate Social Responsibility Initiatives

The Bank CSR Strategy

Corporate Social Responsibility (CSR) is a fundamental part of the way BANK OF AFRICA – UGANDA Ltd does business. It's an opportunity to build better relationships with all stakeholders by paying closer attention to how we fulfill our social, economic, environmental and ethical responsibilities. CSR allows us to align our operations with standards and expectations that are increasingly important to our shareholders, employees, customers and communities where we operate.

While most of our overall impact is a result of our financing and investment activities, we also have a direct impact on the communities where we operate through our day-to-day business operations. Our goal is to help make the communities in which we do business stronger by supporting organizations or activities that achieve a positive and broad impact on education, health, social welfare, environment and economic development in our market areas.

2012 Activities

In pursuit of its CSR strategy, the Bank continued to support the community through a number of initiatives. Some of the activities included the following.

Social

Financial Literacy sessions to Village Savings and Loans Associations in Northern Uganda.

The communities in Northern Uganda are just recovering from the insurgence caused by the LRA, the people have organized themselves into small savings groups where they get to save some money together and get to borrow from the pool after sometime. Their biggest problem is the lack of Financial skills on how to grow their savings, and as such they keep their money in boxes buried under the 'chairman's hut'. BOA-UGANDA went in to offer free Financial Literacy sessions to these groups and managed to lure some of them to bring their savings to the bank where their money

1. CSR BOA Staff conducting Financial Literacy sessions in Arua District, in Northern Uganda.
2. CSR BOA Staff carry out Financial Literacy sessions in Kotomor Agago District, in Northern Uganda.

is safe as opposed to burying it in the ground. This has helped these groups to save better and also to involve themselves in more income generating activities thanks to the Financial Literacy sessions.

Economic

Placement of street Finders in Hoima town council.

With the discovery of Oil in Uganda, Hoima town which is one of the key towns in the oil belt is attracting quite a number of Businesses, but not growing at the pace that it should ideally be growing at. BANK OF AFRICA – UGANDA opened a branch in Hoima in September 2011. One of the key amenities lacking in the town were street finders. The streets in the town were quite bare and not labeled something that would go a long way to improve the look and feel of the town and hence attract more investors to the Hoima town. It's on that premise that we as BOA-UGANDA decided to place 15 street finders in Hoima town that clearly label the streets and make movement easy for any new comers in the town, a gesture that was well received by the Town council.

Financial Literacy and Business Development session to Enterprise customers.

As a way of gratifying our Enterprise customers who have supported us over the years, BOA staff carried out a free Financial literacy and Business development session for the Enterprise customers to try and inculcate some Financial Management skills and also impart some Banking knowledge to these customers most of whom are quite informal and so do not optimize benefits from their Businesses. We invited some guest speakers who had testimonies on how good Financial Management has helped them to take their Businesses to the next level.

3-4. Launch of the Hoima Business Club.
5. A BOA Staff explains to Vice-President Hon. Edward SEKANDI about BOA Products at the Financial Expo.

Board of Directors

The Directors who held office during the year up to 15th March 2013 were:

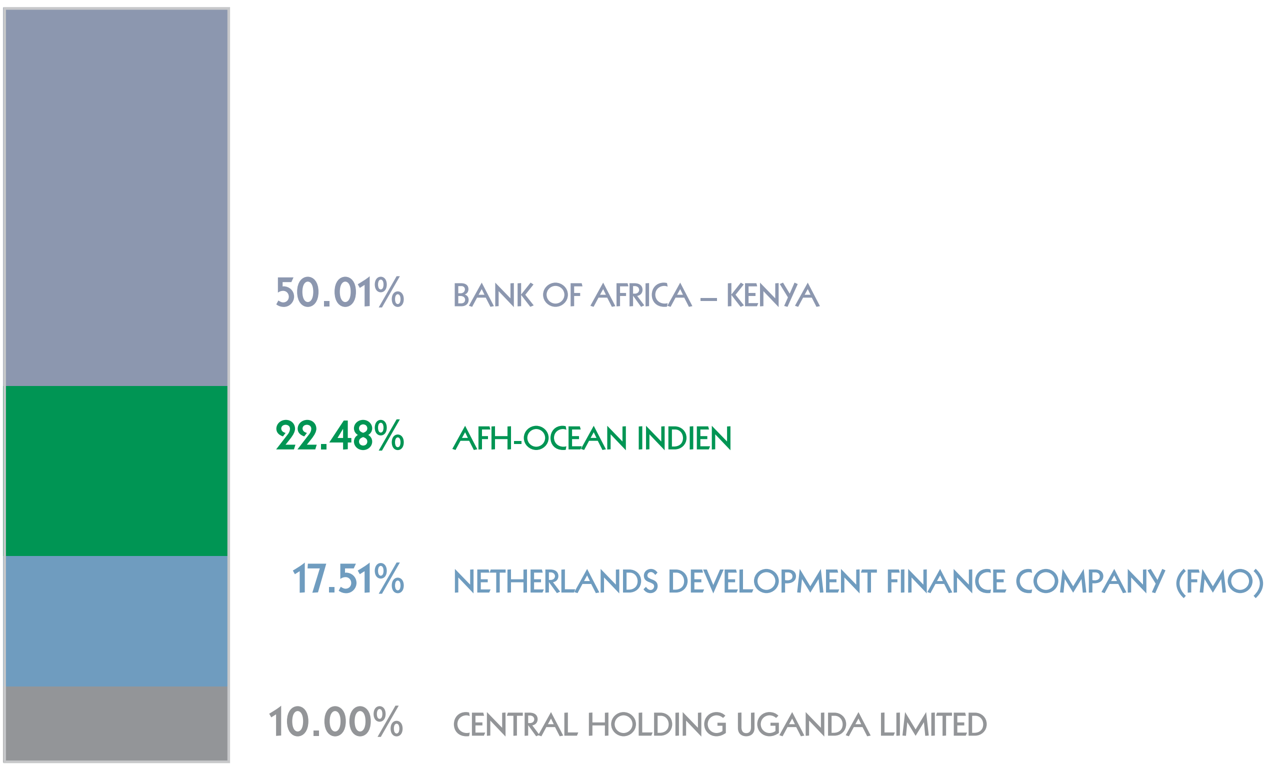
John CARRUTHERS, Chairman
Kwame AHADZI
Abdelkabir BENNANI
Mohamed BENNANI
Vincent de BROUWER
Bernard J. CHRISTIAANSE
Arthur ISIKO
Mohan M. KIWANUKA
Edigold MONDAY

Capital

The authorized share capital of the Bank is Ushs 25,000,000,000 divided into 25,000,000 ordinary shares with par value of Ushs 1,000 each.

The issued share capital is Ushs 25,000,000,000 as at 15th March 2013.

The following was the Bank's shareholding structure as at 15th March 2013.



Report and Financial Statements

for the year ended 31 December 2012

Corporate Information

Directors:

John CARRUTHERS	**Chairman**
Edigold MONDAY	Managing Director
Arthur ISIKO	Executive Director
Mohamed BENNANI	Non-executive Director
Abdelkabir BENNANI	Non-executive Director
Vincent de BROUWER	Non-executive Director
Mohan Musisi KIWANUKA	Non-executive Director
Peter LOCK	Non-executive Director
Kwame AHADZI	Non-executive Director

Company Secretary:

Rehmah NABUNYA

Company Secretary, Plot 45 Jinja Road, P.O. Box 2750, Kampala, Uganda

Auditors:

DELOITTE & TOUCHE

Certified Public Accountants (Uganda), Rwenzori House, 1 Lumumba Avenue
P.O. Box 10314, Kampala, Uganda

Registered Office:

BANK OF AFRICA – UGANDA Ltd
Plot 45 Jinja road, P.O. Box 2750, Kampala, Uganda

The Board Chairman giving a speech at the Staff Deposit Mobilisation awards.

Branches

MAIN BRANCH
Plot 45, Jinja Road
P.O. Box 2750 Kampala

EQUATORIA BRANCH
Plot 84/86, Ben Kiwanuka Street
P.O. Box 2750 Kampala

NDEEBA BRANCH
Plot 1024, Masaka Road,
Ndeeba
P.O. Box 2750 Kampala

PARK BRANCH
Mukwano Centre,
Plot 40/46, Ben Kiwanuka Street
P.O. Box 2750 Kampala

KAMPALA ROAD BRANCH
Plot 48, Kampala Road
P.O. Box 2750 Kampala

NTINDA BRANCH
Plot 49, Ntinda Road, Ntinda
P.O. Box 2750 Kampala

WANDEGEYA BRANCH
KM Plaza, Plot 85 Bombo Road
P.O. Box 2750 Kampala

ENTEBBE BRANCH
Plot 16, Kampala Road
P.O. Box 2750 Kampala

NAKIVUBO BRANCH
Plot 15, Nakivubo Road
P.O. Box 2750 Kampala

MUKONO BRANCH
Plot 13, Kampala Road
P.O. Box 2750 Kampala

KABALAGALA BRANCH
Plot 559, Ggaba Road, Kabalagala
P.O. Box 2750 Kampala

OASIS BRANCH
Oasis Mall, Plot 88/94,
Yusuf Lule Road
P.O. Box 2750 Kampala

JINJA MAIN BRANCH
Plot 1, Main Street
P.O. Box 2095 Jinja

JINJA CLIVE ROAD BRANCH
Plot 18, Clive Road East
P.O. Box 2095 Jinja

ARUA BRANCH
Plot 19, Avenue Road
P.O. Box 894 Arua

LIRA BRANCH
Plot 1A, Balla Road
P.O. Box 929 Lira

MBARARA BRANCH
Plot 1, Mbaguta Road
P.O. Box 1163 Mbarara

MBALE BRANCH
Plot 26, Cathedral Avenue
P.O. Box 553 Mbale

FORT PORTAL BRANCH
Plot 14, Bwamba Road
P.O. Box 359 Fort portal

GULU BRANCH
Plot 11, Awere Road
P.O. Box 921 Gulu

NALUKOLONGO MINI-BRANCH
Plot 4, Wankulukuku Road
P.O. Box 2750 Kampala

KAWEMPE BRANCH
Plot 125, Bombo Road
P.O. Box 2750 Kampala

KOLOLO BRANCH
Plot 9, Cooper Road (Kisementi)
P.O. Box 2750 Kampala

LUZIRA BRANCH
Plot 1329/1330, Portbell
P.O. Box 2750 Kampala

NANSANA BRANCH
Plot 5390 Nansana
P.O. Box 2750 Kampala

NATEETE BRANCH
Plot 1-2, Old Masaka Road
P.O. Box 2750 Kampala

HOIMA BRANCH
Plot 13, Wright Road Hoima
P.O. Box 2750 Kampala

BBIRA MINI BRANCH
Plot 2731, Mityana Road,
Bulenga, P.O. Box 2750 Kampala

PATONGO BRANCH
Plot 33, Owiny Dollo Road,
Patongo P.O. Box 929 Lira

KALONGO MINI-BRANCH
Plot 16, Kalongo Road,
Kalongo TC, P.O. Box 929 Lira

NAMASUBA BRANCH
Plot 4010, Entebbe Rd, Namasuba
P.O. Box 2750 Kampala

RWENZORI MINI-BRANCH
Plot 1, Lumumba Avenue
P.O. Box 2750 Kampala

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 December 2012, which disclose the state of affairs of BANK OF AFRICA – UGANDA Limited ("the Bank").

Principal activities

The principal activities of the Bank, which is licensed under the Financial Institutions Act, 2004 are the provision of banking and related financial services.

Financial results

	2012	2011
	USHS MILLIONS	USHS MILLIONS
PROFIT BEFORE TAXATION	8,852	6,793
TAXATION CHARGE	897	(547)
PROFIT FOR THE YEAR TRANSFERRED TO RETAINED EARNINGS	9,749	6,246

Corporate governance

BANK OF AFRICA – UGANDA Limited has established a tradition of best practices in corporate governance. The corporate governance framework is based on an effective experienced board, separation of the Board's supervisory role from the executive management and constitution of board committees generally comprising a majority of non-executive Directors and chaired by a non-executive independent Director to oversee critical areas.

Board of Directors

BANK OF AFRICA – UGANDA Limited has a broad-based board of Directors. The Board functions as a full board and through various committees constituted to oversee specific operational areas. The Board has constituted four committees. These are the Risk Management Committee, Assets and Liabilities Management Committee, Staff and Compensation Committee, and the Audit Committee. All board committees are constituted and chaired by non-executive Directors. As at 31 December 2012, the Board of Directors consisted of 9 members.

COMMITTEE	HEAD	MEMBERSHIP	MEETING FREQUENCY
RISK MANAGEMENT	NON-EXECUTIVE DIRECTOR	3 NON-EXECUTIVE MEMBERS 1 EXECUTIVE MEMBER	QUARTERLY
ASSETS AND LIABILITIES MANAGEMENT	NON-EXECUTIVE DIRECTOR	3 NON-EXECUTIVE MEMBERS 1 EXECUTIVE MEMBER	QUARTERLY
STAFF AND COMPENSATION	NON-EXECUTIVE DIRECTOR	4 NON-EXECUTIVE MEMBERS	QUARTERLY
AUDIT	NON-EXECUTIVE DIRECTOR	4 NON-EXECUTIVE MEMBERS	QUARTERLY

In addition to the above committees, there are committees at management level comprised of senior management that meet on a daily, weekly, monthly, and/or quarterly basis.

Dividend

The Directors recommend the payment of a dividend of Ushs 273 per share in respect of the year ended 31 December 2012 (2011: Ushs 128) amounting to Ushs 6,824 million (2011: Ushs 3,122 million) as detailed in Note 31.

Directors

The present membership of the Board is shown on page 16.

During the year, P. DERREUMAUX and S. MERALI resigned as Directors on 2nd March and 19th September 2012 respectively. K. AHADZI was appointed as Director on 31st May 2012.

During the financial year and up to the date of this report, other than as disclosed in Note 34 to the financial statements, no Director has received or become entitled to receive any benefit other than Directors' fees, and amounts receivable by executive Directors under employment contracts and the senior staff incentive scheme. The aggregate amount of emoluments for Directors for services rendered in the financial year is disclosed in Note 34 to the financial statements.

Neither at the end of the financial year nor at any time during the year did there exist any arrangement to which the Bank is a party whereby Directors might acquire benefits by means of acquisition of shares in or debentures of the Bank or any other body corporate.

Auditors

DELOITTE & TOUCHE, have been the auditors for the year ended 31st December 2012. The Board of Directors shall appoint auditors for the next financial year in accordance with Section 159 (2) of the Companies Act (Cap.110) and subject to approval by Bank of Uganda in accordance with the requirement of Section 62 (3) of the Ugandan Financial Institutions Act, 2004.

By order of the Board

Rehmah NABUNYA
Secretary
14 March 2013

Statement of Directors' Responsibilities

The Ugandan Companies Act requires 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 the operating results of the Bank for that year. It also requires the Directors to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Ugandan Companies Act, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with the Ugandan Financial Institutions Act 2004, International Financial Reporting Standards and in the manner required by the Ugandan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Signed on behalf of the Board of Directors by:

Edigold MONDAY	John CARRUTHERS	Arthur ISIKO
Director	Director	Director

14 March 2013

Independent Auditor's Report

To the members of BANK OF AFRICA – UGANDA Limited

Report on the financial statements

We have audited the accompanying financial statements of BANK OF AFRICA – UGANDA Limited set out on pages 24 to 70, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Ugandan Companies Act and the Ugandan Financial Institutions Act 2004, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an 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 from 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 our judgment and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Bank as at 31 December 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Ugandan Companies Act and Financial Institutions Act, 2004.

Report on other legal requirements

As required by the Ugandan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books; and

iii) the Bank's statement of financial position (balance sheet) and statement of comprehensive income (profit and loss) account in agreement with the books of account.

DELOITTE & TOUCHE

Certified Public Accountants (Uganda)

Kampala

14 March 2013

Financial Statements

for the year ended 31 December 2012

Financial Statements
for the year ended 31 December 2012

Statement of comprehensive income

	NOTES	2012 USHS MILLIONS	2011 USHS MILLIONS
INTEREST INCOME	7	58,710	39,998
INTEREST EXPENSE	8	(26,061)	(18,493)
NET INTEREST INCOME		32,649	21,505
FEE AND COMMISSION INCOME	9	15,733	11,426
FEE AND COMMISSION EXPENSE	10	(1,758)	(1,159)
LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		(426)	(91)
GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		-	292
NET FOREIGN EXCHANGE GAINS	11	2,600	3,434
OTHER OPERATING INCOME		744	894
NET OPERATING INCOME		49,542	36,301
NET IMPAIRMENT LOSS ON LOANS AND ADVANCES	19(B)	(6,363)	(1,443)
OPERATING EXPENSES	12	(34,327)	(28,065)
PROFIT BEFORE TAXATION		8,852	6,793
TAXATION CREDIT / (CHARGE)	14(A)	897	(547)
PROFIT FOR THE YEAR		9,749	6,246
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		9,749	6,246
EARNINGS PER SHARE			
BASIC AND DILUTED EARNINGS PER SHARE (USHS PER SHARE)	33	390	492

Statement of financial position

	NOTES	2012 USHS MILLIONS	2011 USHS MILLIONS
ASSETS			
CASH AND BALANCES WITH BANK OF UGANDA	15	60,811	47,552
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	16	25,305	42,995
DUE FROM GROUP COMPANIES	34(A)	8,786	8,941
GOVERNMENT SECURITIES	17(A)	81,080	63,440
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	17(B)	-	195
LOANS AND ADVANCES TO CUSTOMERS	18(A)	240,468	242,792
OTHER ASSETS	20	5,220	4,962
TAX RECOVERABLE	14(C)	364	683
PROPERTY AND EQUIPMENT	21	16,092	16,814
OPERATING LEASE PREPAYMENTS	22	3,239	1,075
INTANGIBLE ASSETS	23	1,964	1,015
DEFERRED TAX ASSET	28	3,566	1,205
TOTAL ASSETS		**446,895**	**431,669**
EQUITY AND LIABILITIES			
LIABILITIES			
CUSTOMER DEPOSITS	24	299,922	278,184
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	25	17,054	38,554
DUE TO GROUP COMPANIES	34(B)	5,717	12,619
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	17(B)	12	-
OTHER BORROWINGS	26	63,929	51,657
OTHER LIABILITIES	27	4,683	5,087
TOTAL LIABILITIES		**391,317**	**386,101**
EQUITY			
SHARE CAPITAL	29	25,000	20,919
SHARE PREMIUM	29	5,390	6,086
REGULATORY RESERVE	19(C)	2,958	2,465
RETAINED EARNINGS		22,230	16,098
SHAREHOLDERS' FUNDS		**55,578**	**45,568**
TOTAL EQUITY AND LIABILITIES		**446,895**	**431,669**

The financial statements on pages 24 to 70 were approved by the Board of Directors on 14th March 2013 and were signed on its behalf by:

Edigold MONDAY	**John CARRUTHERS**	**Arthur ISIKO**	**Rehmah NABUNYA**
Director	Director	Director	Secretary

Financial Statements
for the year ended 31 December 2012

Statement of changes in equity

	SHARE CAPITAL	SHARE PREMIUM	REGULATORY RESERVE*	RETAINED EARNINGS	TOTAL
	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS
2011					
AT 1 JANUARY 2011	**8,666**	**9,420**	**1,559**	**12,583**	**32,228**
PROFIT FOR THE YEAR	-	-	-	6,246	6,246
BONUS ISSUE OF SHARES (NOTE 29)	3,334	(3,334)	-	-	-
RIGHTS ISSUE (NOTE 29)	8,919	-	-	-	8,919
TRANSFER TO REGULATORY RESERVE - (NOTE 19(C))	-	-	906	(906)	-
FINAL DIVIDEND PAID FOR 2010 (NOTE 31)	-	-	-	(1,825)	(1,825)
AT 31 DECEMBER 2011	**20,919**	**6,086**	**2,465**	**16,098**	**45,568**
2012					
AT 1 JANUARY 2012	**20,919**	**6,086**	**2,465**	**16,098**	**45,568**
PROFIT FOR THE YEAR	-	-	-	9,749	9,749
BONUS ISSUE OF SHARES (NOTE 29)	696	(696)	-	-	-
RIGHTS ISSUE (NOTE 29)	3,385	-	-	-	3,385
TRANSFER TO REGULATORY RESERVE - (NOTE 19(C))	-	-	493	(493)	-
FINAL DIVIDEND PAID FOR 2011 (NOTE 31)	-	-	-	(3,124)	(3,124)
AT 31 DECEMBER 2012	**25,000**	**5,390**	**2,958**	**22,230**	**55,578**

*The regulatory reserve represents an appropriation from retained earnings to comply with Bank of Uganda's prudential guidelines on impairment of loans and receivables. It represents the excess of loan provision as computed in accordance with Bank of Uganda prudential guidelines over the impairment of loans and receivables arrived at in accordance with IAS 39. The regulatory reserve is not distributable.

Statement of cash flows

	NOTES	2012 USHS MILLIONS	2011 USHS MILLIONS
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		59,258	39,608
INTEREST PAYMENTS		(24,503)	(18,914)
NET FEE AND COMMISSION RECEIPTS		13,975	10,267
OTHER INCOME RECEIVED		3,355	4,620
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF	19(B)	3,656	2,191
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(31,795)	(24,604)
CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		23,946	13,168
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(8,278)	(90,904)
- CASH RESERVE REQUIREMENT		(1,739)	893
- OTHER ASSETS		(2,471)	(1,317)
- CUSTOMER DEPOSITS		20,535	57,668
- DEPOSITS DUE TO OTHER BANKS		(21,599)	25,160
- AMOUNTS DUE TO GROUP COMPANIES		(6,902)	3,100
- OTHER LIABILITIES		1,003	8
- GOVERNMENT SECURITIES		(13,492)	23,194
INCOME TAX PAID	14(C)	(1,145)	(1,004)
NET CASH (USED IN)/ GENERATED FROM OPERATING ACTIVITIES		(10,142)	29,966
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	21	(3,304)	(5,201)
PURCHASE OF INTANGIBLE ASSETS	23	(617)	(43)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		2	52
NET CASH USED IN INVESTING ACTIVITIES		(3,919)	(5,192)
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES	29	3,385	8,919
PROCEEDS FROM/(REPAYMENT OF) BORROWED FUNDS	26	12,016	33,290
DIVIDENDS PAID	31	(3,123)	(1,825)
NET CASH GENERATED FROM FINANCING ACTIVITIES		12,278	40,384
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS		(1,783)	65,158
CASH AND CASH EQUIVALENTS AT START OF YEAR		91,841	26,683
CASH AND CASH EQUIVALENTS AT END OF YEAR	32	90,058	91,841

Notes to the Financial Statements

1. Reporting entity

BANK OF AFRICA – UGANDA Limited ("The Bank") is incorporated in Uganda under the Companies Act, and licensed to transact financial institutions business under the Financial Institutions Act, 2004. The address of its registered office is Plot 45, Jinja Road, P.O. Box 2750, Kampala.

2. Adoption of new and revised international financial reporting standards (IFRSs)

There are no IFRSs or IFRC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that have a material impact on the Bank's financial statements.

a) New standards and amendments to published standards effective for the year ended 31 December 2012

AMENDMENTS AND REVISED STANDARDS	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
AMENDMENTS TO IFRS 1 - SEVERE HYPERINFLATION	1 JULY 2011
AMENDMENTS TO IFRS 1 - REMOVAL OF FIXED DATES FOR FIRST-TIME ADOPTERS	1 JULY 2011
AMENDMENTS TO IFRS 7 - DISCLOSURES: TRANSFERS OF FINANCIAL ASSETS	1 JULY 2011
AMENDMENTS TO IAS 12 - DEFERRED TAX: RECOVERY OF UNDERLYING ASSETS	1 JANUARY 2012

b) New and amended interpretations in issue but not yet effective in the period ended 31 December 2012

AMENDMENTS AND REVISED STANDARDS	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
IFRS 7, FINANCIAL INSTRUMENTS: DISCLOSURES – AMENDMENTS ENHANCING DISCLOSURES ABOUT OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES	1 JANUARY 2013
IFRS 10, CONSOLIDATED FINANCIAL STATEMENTS	1 JANUARY 2013
IFRS 11, JOINT ARRANGEMENTS	1 JANUARY 2013
IFRS 12 DISCLOSURE OF INTEREST IN OTHER ENTITIES	1 JANUARY 2013
AMENDMENTS TO IFRS 10, IFRS 11 AND IFRS 12 CONSOLIDATED FINANCIAL STATEMENTS, JOINT ARRANGEMENTS AND DISCLOSURE OF INTERESTS IN OTHER ENTITIES: TRANSITION GUIDANCE	1 JANUARY 2013
IAS 27 SEPARATE FINANCIAL STATEMENTS (AS REVISED IN 2011)	1 JANUARY 2013
IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (AS REVISED IN 2011)	1 JANUARY 2013
IFRS 13 FAIR VALUE MEASUREMENT	1 JANUARY 2013
IAS 19 EMPLOYEE BENEFITS (AS REVISED IN 2011)	1 JANUARY 2013

AMENDMENTS AND REVISED STANDARDS	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
AMENDMENTS TO IFRS 1, GOVERNMENT LOANS	1 JANUARY 2013
AMENDMENTS TO IFRS 7, DISCLOSURES - OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES	1 JANUARY 2013
AMENDMENTS TO IAS 1, PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME	1 JULY 2012
AMENDMENTS TO IAS 32, OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES	1 JANUARY 2014
ANNUAL IMPROVEMENTS TO IFRSS 2009 - 2011 CYCLE	1 JANUARY 2013

c) Impact of new and amended standards and interpretations on the financial statements for the period ended 31 December 2012 and future annual periods

Amendments to IFRS 1 Severe Hyperinflation

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters

The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.

Amendments to IAS 12 Deferred Tax – Recovery of Underlying Assets

The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation.

Under the amendments, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset is required to reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. The 'sale' presumption is rebutted if the investment property is depreciable and the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Following the application of the amendments, entities holding investment property accounted for using the fair value model in accordance with IAS 40 in jurisdictions where tax is not imposed on sale of the investment property will no longer recognise deferred tax on any temporary differences arising from fair value gains or losses (unless the presumption is rebutted). This is because there would be no tax consequences expected to arise from recovering the carrying amount entirely through sale, regardless of whether the entity intends to use the property to generate rental income for a period of time prior to sale.

For depreciable investment property, the application of the amendments will result in a change in accounting policy. When the deferred tax associated with an investment property was previously determined based on expectations that the property would be recovered through use, the measurement basis will need to be changed unless the 'sale' presumption is rebutted. When the amendments result in a change to the basis of measurement and the effect is material, prior year amounts are required to be restated as the amendments require full retrospective application.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements that deals with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities.

The headline change brought about by IFRS 10 is that there is only one basis for consolidation for all entities, and that basis is control. This change removes the perceived inconsistency between the previous version of IAS 27 and SIC-12 – the former used control concept whilst the latter placed greater emphasis on risks and rewards.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers.

IFRS 11 deals with how a joint arrangement should be classified where two or more parties have joint control. There are two types of joint arrangements under IFRS 11: joint operations and joint ventures. These two types of joint arrangements are distinguished by parties' rights and obligations under the arrangements.

IFRS 12 Disclosure of interests in other entities

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities.

IFRS 12 establishes disclosure objectives and specifies minimum disclosures that entities must provide to meet those objectives. The objective of IFRS 12 is that an entity should disclose information that helps users of financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The disclosure requirements set out in IFRS 12 are more extensive than those in the current standards.

Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

The amendments clarify certain transitional guidance on the application of IFRS 10, IFRS 11 and IFRS 12 for the first time. The major clarifications are as follows:

- The amendments explain that the 'date of initial application' of IFRS 10 means the beginning of the annual reporting period in which IFRS 10 is applied for the first time;
- The amendments clarify how a reporting entity should adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application under IFRS 10 is different from that under IAS 27/ SIC-12;
- When the control over an investee was lost during the comparative period (e.g. as a result of a disposal), the amendments confirm there is no need to adjust the comparative figures retrospectively (even though a different consolidation conclusion might have been reached under IAS 27/SIC-12 and IFRS 10);
- When a reporting entity concludes, on the basis of the requirements of IFRS 10, that it should consolidate an investee that was not previously consolidated, IFRS 10 requires the entity to apply acquisition accounting in accordance with IFRS 3 Business Combinations to measure assets, liabilities and non-controlling interests of the investee at the date when the entity obtained control of the investee (based on the requirements of IFRS 10). The amendments clarify which version of IFRS 3 should be used in different scenarios;
- The amendments provide additional transitional relief by limiting the requirement to present adjusted comparative information to the period immediately before the date of initial application. They also eliminate the requirements to present comparative information for disclosures related to unconsolidated structured entities for any period before the first annual period in which IFRS 12 is applied.

IFRS 13 Fair Value Measurements

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required by the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IAS 19 Employee Benefits (as revised in 2011)

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs.

The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Another significant change to IAS 19 relates to the presentation of changes in defined benefit obligations and plan assets with changes being split into three components.

As a result, the profit or loss will no longer include an expected return on plan assets; instead, imputed finance income is calculated on the plan assets and is recognised as part of the net interest cost in profit or loss. Any actual return above or below the imputed finance income on plan assets is recognised as part of measurement in other comprehensive income.

The adoption of these standards has not had any material impact on the Bank's financial statements.

3. Significant accounting policies

a) Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting except for certain financial instruments that are measured at fair values as explained in the accounting policies below.

b) Functional and presentation currency

The financial statements have been presented in Uganda Shillings (Ushs), which is the Bank's functional currency. Except as indicated, financial information presented in Uganda Shillings has been rounded to the nearest million.

c) Use of estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

During the period, the areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently throughout the year.

FINANCIAL INSTRUMENTS

The Bank adopted IFRS 9 Financial Instruments (IFRS 9) in 2011 in advance of its effective date. The Bank chose 1st January 2011 as its date of initial application (i.e. the date on which the Bank has assessed its existing financial assets) as this was the first reporting year end since the Standard was issued on 12th November 2009. The Standard was applied prospectively in accordance with the transition rules for entities adopting the Standard before 1st January 2015.

Financial Assets

• Financial assets are classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is made at initial recognition. The classification is based on contractual cash flow characteristics of the instrument.

• An instrument is subsequently measured at amortised cost only if it is a debt instrument the objective of the entity's business model is to hold the asset to collect the contractual cash flows and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are measured at fair value through profit or loss.

Only financial assets that are classified as measured at amortised cost are tested for impairment. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Investments in Government securities are classified and measured at amortized cost.

The Directors have reviewed and assessed all of the Bank's existing financial assets as at the date of initial application of IFRS 9. As a result:

• The Bank's investments in Government securities meeting the required criteria are measured at amortised cost.

All other financial assets were originally categorised under loans and receivables under IAS 39 and are now categorised as financial assets or liabilities at amortised cost under IFRS 9. There was no change in the carrying values of these assets and liabilities on adoption of IFRS 9.

Derecognition of financial assets

The Bank derecognizes a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and the transfer qualifies for derecognition in accordance relevant provisions of IFRS 9 Financial Instruments.

On derecognition of the financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the profit or loss.

Impairment of financial assets held at amortised cost

The Bank assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If there is objective evidence that an impairment loss on financial assets measured at amortised cost 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

If a loan or held to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statements.

The Bank initially measures all its financial liabilities at their fair values. These liabilities with the exception of derivatives are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the profit or loss.

Derecognition of financial liabilities

The Bank derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished (when the obligation specified in the contract is discharged or cancelled or expires).

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss for the year.

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Uganda Shillings ("Ushs") which is the Bank's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

d) Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

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

BUILDINGS	50 YEARS
FIXTURES, FITTINGS AND EQUIPMENT	3-8 YEARS
MOTOR VEHICLES	4 YEARS

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

e) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

With the Bank as lessee

To date, all leases entered into by the Bank are operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

With the Bank as lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before income tax), which reflects a constant periodic rate of return. To date, the Bank has not leased out any assets under operating leases.

Leasehold land

Payments to acquire interests in leasehold land are treated as operating lease prepayments and amortised over the term of the related lease.

f) Intangible assets

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

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

g) Cash and cash equivalents

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

h) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

i) Offsetting of assets and liabilities

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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j) Taxation

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act.

Deferred income tax is provided in full, 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. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

k) Share capital

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

l) Regulatory reserve

IAS 39 requires the Bank to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, Bank of Uganda prudential guidelines require the Bank to set aside amounts for impairment losses on loans and advances in addition to those losses that have been recognised under IAS 39. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the regulatory reserve.

m) Customer deposits

Deposits from customers are measured at amortised cost using the effective interest rate method.

n) Dividends payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

o) Interest income and expense

Interest income and expense for all interest bearing financial instruments measured at amortised cost are recognised in the profit and loss account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

p) Fees and commissions

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

q) Impairment

At each balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

r) Employee benefits

National Social Security Fund Contribution

The Bank contributes to the statutory National Social Security Fund (NSSF) on behalf of its employees. This is a defined contribution scheme registered under the NSSF Act. The Bank's obligations under the scheme are specific contributions legislated from time to time and are currently limited to 10% of the respective employees' salaries. The Bank's contributions are charged to the profit or loss in the year in which they relate.

Defined contribution retirement benefit scheme

The Bank operates a defined contribution retirement benefit scheme for its permanent employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank's obligations under the scheme are currently limited to 5% of the respective employees' salaries. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Bank and employees.
The Bank's contributions to the defined contribution schemes are charged to the profit or loss in the year to which they relate.

Other entitlements

The estimated monetary liability for short term benefits such as salaries, employees' accrued annual leave entitlements, bonuses, at the balance sheet date is recognised as an expense accrual.

s) Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

t) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

u) Commitments

Commitments to lend are agreements to lend a customer in future, subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of the agreed overdrafts/advances upon giving reasonable notice to the customer.

v) Grants

Grants include assistance offered by government, government agencies and similar bodies whether local, national, or international in the form of transfers of resources in return for past, of future compliance with certain conditions relating to the operation of the Bank. Grants related to assets are those whose primary condition is that the Bank should purchase long term assets.

Grants are recognised when there is reasonable assurance that the Bank will comply with the conditions attached to the grant and that the grant will be received.

Grants awarded towards the purchase of assets are netted off against the total purchase price in arriving at the carrying value of the asset. The grant is then recognised as income through profit or loss over the life of the asset by way of a reduction in the depreciation charge of the asset.

w) Comparatives

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

4. Critical accounting estimates and judments in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Loss emergence is estimated on the basis of historical loss ratios adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with the defaults on the portfolio. The Bank generally applies loss emergence periods of 1 to 3 months.

b) Fair value of derivatives

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

c) Held-to-maturity financial assets

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such assets to maturity. If the Bank fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity assets is tainted, the fair value would not materially vary from the carrying value.

5. Financial risk management

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

Risk management is carried out by the Treasury department under policies approved by the Board of Directors. The Treasury department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

a) Credit risk

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

(i) Credit risk measurement

Loans and advances (including commitments and guarantees)

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

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

Probability of default

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

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

BANK'S RATING	DESCRIPTION OF THE GRADE
1	PERFORMING
2	WATCH
3	SUBSTANDARD
4	DOUBTFUL
5	LOSS

Exposure at default

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

Loss given default

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

(ii) Credit risk control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, and industry sector are approved annually by the Board of Directors. The Board of Directors also approves individual borrower limits above specified amounts.

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

Some other specific control and mitigation measures are outlined below:

Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Derivatives

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank, which in relation to derivatives is only a small fraction of the contracts, or notional values used to express the volume of instruments outstanding.

This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures for these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where, a payment in cash or securities is made in the expectation of a corresponding receipt in cash or securities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

Credit related commitments

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

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

(iii) Impairment and provisioning policies

The rating systems described in Note 5 a) (i) above focus more on credit quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Owing to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment allowance shown in the balance sheet at year end is derived from each of the five internal rating grades. The table below shows the percentage of the Bank's on – and off balance sheet items relating to loan commitments and other credit related obligations.

	2012		2011	
BANK'S RATING	CREDIT EXPOSURE %	IMPAIRMENT ALLOWANCE %	CREDIT EXPOSURE %	IMPAIRMENT ALLOWANCE %
PERFORMING	87.9	13.40	92.33	51.8
WATCH	4.8	0.70	5.73	3.2
SUBSTANDARD	3.4	31.60	1.83	9.5
DOUBTFUL	2.1	27.70	0.08	10.7
LOSS	1.8	26.50	0.03	24.7
TOTAL	100	100	100	100

(iv) Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD:

	2012	2011
	USHS MILLIONS	USHS MILLIONS
ON-BALANCE SHEET ITEMS		
BALANCES WITH BANK OF UGANDA (CASH RATIO REQUIREMENT)	26,688	23,079
AMOUNTS DUE FROM OTHER BANKS	25,305	42,995
AMOUNTS DUE FROM GROUP COMPANIES	8,786	8,941
LOANS AND ADVANCES TO CUSTOMERS	240,468	242,792
INVESTMENT SECURITIES HELD FOR TRADING	-	393
INVESTMENT SECURITIES HELD-TO-MATURITY	81,080	63,047
OFF-BALANCE SHEET ITEMS		
- ACCEPTANCES AND LETTERS OF CREDIT	29,500	44,970
- GUARANTEE AND PERFORMANCE BONDS	54,366	43,827
- COMMITMENTS TO LEND	13,212	13,328
TOTAL	**479,405**	**483,372**
CREDIT EXPOSURE BY AGING		
SHORT TERM CREDITS (<1 YEAR)	106,153	96,935
MEDIUM TERM CREDITS (> 1 YEAR < 5 YEARS)	94,696	115,005
LONG TERM CREDITS (> 5 YEARS)	48,321	33,410
BILLS/CHEQUES/NOTES DISCOUNTED	-	7
TOTAL ON BALANCE SHEET EXPOSURE	**249,170**	**245,357**
ACCEPTANCES AND LETTERS OF CREDIT	29,500	44,970
GUARANTEE AND PERFORMANCE BONDS	54,366	43,827
TOTAL NON-FUNDED EXPOSURE	**83,866**	**88,797**
TOTAL EXPOSURE	**333,036**	**334,154**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2012 and 2011, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 55% of the total maximum exposure is derived from loans and advances to banks and customers (2011: 59%). 17% represents investments in debt securities (2011: 13%).

Loans and advances to customers other than loans to salaried customers amounting to Ushs 242,472 million (2011: Ushs 234,935 million), are secured by collateral in the form of charges over land and buildings and/or plant and machinery or guarantees.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- All the investments in debt securities are government securities;
- 93% of the loans and advances portfolio is neither past due nor impaired and is categorised in the top two grades of the internal rating system (2011: 97%);
- 99% of the loans and advances portfolio is not impaired (2011: 99%);
- 97% of the loans and advances portfolio are backed by collateral (2011: 96%);
- the Bank exercises stringent controls over the granting of new loans;

FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED:

	2012	2011
	USHS MILLIONS	USHS MILLIONS
NEITHER PAST DUE NOR IMPAIRED	230,918	238,122
PAST DUE BUT NOT IMPAIRED	16,628	6,126
INDIVIDUALLY IMPAIRED	1,624	1,109
GROSS	249,170	245,357
LESS: ALLOWANCE FOR IMPAIRMENT	(8,702)	(2,565)
NET	240,468	242,792

No other financial assets are either past due or impaired.

LOANS AND ADVANCES NEITHER PAST DUE NOR IMPAIRED:

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank:

	2012	2011
	USHS MILLIONS	USHS MILLIONS
STANDARD	218,803	226,533
WATCH	12,115	11,589
TOTAL	230,918	238,122

(iv) Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED:

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances greater than 90 days are not considered impaired if there is sufficient collateral to cover the facility. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2012	2011
	USHS MILLIONS	USHS MILLIONS
PAST DUE UP TO 30 DAYS	1,788	4,054
PAST DUE 31 – 60 DAYS	528	959
PAST DUE 61 – 90 DAYS	706	298
PAST DUE OVER 90 DAYS	13,606	815
TOTAL	16,628	6,126

LOANS AND ADVANCES INDIVIDUALLY IMPAIRED:

Of the total gross amount of impaired loans, the following amounts have been individually assessed:

	LOANS		OVERDRAFTS	
	2012	2011	2012	2011
	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES				
- CORPORATE	19	30	-	2
- SME	682	160	147	65
- CONSUMER	645	717	131	135
TOTAL	1,346	907	278	202
FAIR VALUE OF COLLATERAL	18,196	10,081		

(v) Concentrations of risk of financial assets with credit risk exposure

ECONOMIC SECTOR RISK CONCENTRATIONS WITHIN THE CUSTOMER LOAN AND DEPOSIT PORTFOLIOS WERE AS FOLLOWS:

	LOANS AND ADVANCES %	CREDIT COMMITMENTS %	CUSTOMER DEPOSITS %
AT 31 DECEMBER 2012			
AGRICULTURAL	4.4	0.1	2.3
MANUFACTURING	8.0	10.0	2.8
TRADE AND COMMERCE	34.8	17.2	13.9
FINANCIAL SERVICES	1.5	2.2	12.3
TRANSPORT AND UTILITIES	4.6	2.2	3.5
BUILDING AND CONSTRUCTION	15.9	39.2	11.9
INDIVIDUALS	10.8	2.5	21.1
OTHER	20.0	26.6	32.3
TOTAL	**100**	**100**	**100**
AT 31 DECEMBER 2011			
AGRICULTURAL	4.9	1.3	2.3
MANUFACTURING	7.4	18.4	2.8
TRADE AND COMMERCE	37.6	21.2	13.9
FINANCIAL SERVICES	1.7	0.9	12.3
TRANSPORT AND UTILITIES	4.8	2.8	3.5
BUILDING AND CONSTRUCTION	15.1	25.6	11.9
INDIVIDUALS	12.4	3.0	21.1
OTHER	16.1	26.9	32.3
TOTAL	**100**	**100**	**100**

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans. Renegotiated loans that would otherwise be past due but not impaired totalled Ushs 13,310 million (2011: Ushs 2,434 million).

Repossessed collateral

During 2012, the Bank did not obtain any assets by taking possession of collateral held as security. Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property would be classified in the balance sheet within “other assets”.

b) Liquidity risk

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

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank of Uganda requires the Bank to maintain liquid assets amounting to not less than 20% of deposit liabilities in local and foreign currencies on a weekly average basis. As at December 31 2012, the Bank's liquid assets amounted to 37% (2011: 39%) of the deposit liabilities.

In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis.

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date and from financial assets by the expected maturity dates.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS
AT 31 DECEMBER 2012						
FINANCIAL ASSETS						
CASH AND BANK BALANCES WITH BANK OF UGANDA	60,811	-	-	-	-	60,811
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	25,305	-	-	-	-	25,305
AMOUNTS DUE FROM GROUP COMPANIES	8,786	-	-	-	-	8,786
LOANS AND ADVANCES TO CUSTOMERS	77,904	8,004	17,885	164,524	106,824	375,141
GOVERNMENT SECURITIES	9,000	10,366	54,644	12,910	-	86,920
TOTAL ASSETS (EXPECTED MATURITIES)	**181,806**	**18,370**	**72,529**	**177,434**	**106,824**	**556,963**
FINANCIAL LIABILITIES						
CUSTOMER DEPOSITS	231,943	18,705	52,723	1,645	-	305,016
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	15,164	1,996	-	-	-	17,160
AMOUNTS DUE TO GROUP COMPANIES	317	-	5,488	-	-	5,805
OTHER BORROWED FUNDS	28	-	-	72,177	2,893	75,098
OTHER FINANCIAL LIABILITIES	4,695	-	-	-	-	4,695
TOTAL	**252,147**	**20,701**	**58,212**	**73,822**	**2,893**	**407,774**
NET LIQUIDITY GAP	**(70,341)**	**(2,331)**	**14,317**	**103,612**	**103,931**	**149,189**

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS
AT 31 DECEMBER 2011						
FINANCIAL ASSETS						
CASH AND BANK BALANCES WITH BANK OF UGANDA	47,552	-	-	-	-	47,552
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	42,995	-	-	-	-	42,995
AMOUNTS DUE FROM GROUP COMPANIES	8,941	-	-	-	-	8,941
LOANS AND ADVANCES TO CUSTOMERS	74,678	11,384	12,395	247,582	102,963	449,002
GOVERNMENT SECURITIES	5,782	9,074	27,941	26,650	-	69,447
TOTAL ASSETS (EXPECTED MATURITIES)	**179,948**	**20,458**	**40,336**	**274,232**	**102,963**	**617,937**
FINANCIAL LIABILITIES						
CUSTOMER DEPOSITS	223,116	16,858	40,697	1,039	-	281,711
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	36,619	1,736	1,833	-	-	40,188
AMOUNTS DUE TO GROUP COMPANIES	12,587	-	-	-	-	12,587
OTHER BORROWED FUNDS	102	-	2,335	55,503	3,140	61,080
OTHER FINANCIAL LIABILITIES	5,087	-	-	-	-	5,087
TOTAL	**277,511**	**18,594**	**44,865**	**56,542**	**3,140**	**400,652**
NET LIQUIDITY GAP	**(97,563)**	**1,864**	**(4,529)**	**217,690**	**99,823**	**217,285**

c) Market risk

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

Market risk management

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, and other marked-to-market positions so designated.

Non-trading portfolios include positions that arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities, and financial assets designated as available-for sale and held-to-maturity. The ALCO prescribes limits for portfolios, products and risk types to the Board of Directors for approval, with market liquidity being a principal factor in determining the level of limits set. The Daily Treasury Committee monitors market risk exposures against prescribed limits on a daily basis. The Bank further carries out stress testing on both individual portfolios and positions taken.

(i) Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank had the following significant foreign currency positions (all amounts expressed in millions of Uganda Shillings):

	USD	GBP	EUR	OTHER	TOTAL
AT 31 DECEMBER 2012					
FINANCIAL ASSETS					
CASH AND BALANCES WITH BANK OF UGANDA	12,463	1,487	4,373	51	18,374
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	22,523	1,443	3,574	559	28,099
AMOUNTS DUE FROM GROUP COMPANIES	5,454	-	-	22	5,476
LOANS AND ADVANCES	100,980	13	225	18	101,236
OTHER FINANCIAL ASSETS	4,204	-	21	-	4,225
TOTAL FINANCIAL ASSETS	**145,624**	**2,943**	**8,193**	**650**	**157,410**
FINANCIAL LIABILITIES					
CUSTOMER DEPOSITS	68,159	1,245	6,683	525	76,612
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	61,547	-	1,117	4	62,668
AMOUNTS DUE TO GROUP COMPANIES	5,495	-	-	-	5,495
OTHER FINANCIAL LIABILITIES	2,003	1,171	3,595	3	6,772
TOTAL FINANCIAL LIABILITIES	**137,204**	**2,416**	**11,395**	**532**	**151,547**
NET ON-BALANCE SHEET POSITION	**8,420**	**527**	**(3,202)**	**118**	**5,863**
NET OFF-BALANCE SHEET POSITION	(5,425)	(65)	2,206	-	(3,284)
OVERALL OPEN POSITION	**2,995**	**462**	**(996)**	**118**	**2,579**
AT 31 DECEMBER 2011					
TOTAL FINANCIAL ASSETS	133,364	2,355	10,602	1,110	147,431
TOTAL FINANCIAL LIABILITIES	134,122	2,129	10,386	491	147,128
NET ON-BALANCE SHEET POSITION	**(758)**	**226**	**216**	**619**	**303**
NET OFF-BALANCE SHEET POSITION	1,772	103	(666)	613	1,822
OVERALL OPEN POSITION	**1,014**	**329**	**(450)**	**1,232**	**2,125**

(ii) Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off-balance sheet items. All figures are in millions of Uganda Shillings.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	OVER 1 YEARS	NON-INTEREST BEARING	TOTAL
AT 31 DECEMBER 2012						
FINANCIAL ASSETS						
CASH AND BANK BALANCES WITH BANK OF UGANDA	-	-	-	-	60,811	60,811
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	25,305	-	-	-	-	25,305
AMOUNTS DUE FROM GROUP COMPANIES	8,786	-	-	-	-	8,786
LOANS AND ADVANCES TO CUSTOMERS	72,216	9,582	15,649	143,021	-	240,468
GOVERNMENT SECURITIES	9,057	7,539	51,454	13,030	-	81,080
TOTAL FINANCIAL ASSETS	**115,364**	**17,121**	**67,103**	**156,051**	**60,811**	**416,450**
FINANCIAL LIABILITIES						
CUSTOMER DEPOSITS	135,086	24,888	51,991	1,436	86,521	299,922
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	15,164	-	1,890	-	-	17,054
AMOUNTS DUE TO GROUP COMPANIES	317	-	5,400	-	-	5,717
OTHER BORROWED FUNDS	28	-	-	62,180	1,721	63,929
TOTAL FINANCIAL LIABILITIES AND EQUITY	**150,595**	**24,888**	**59,281**	**63,616**	**88,242**	**386,622**
INTEREST SENSITIVITY GAP	**(35,231)**	**(7,767)**	**7,822**	**44,114**	**20,889**	**29,828**
AT 31 DECEMBER 2011						
TOTAL FINANCIAL ASSETS	79,446	21,636	44,735	170,358	89,545	405,720
TOTAL FINANCIAL LIABILITIES	173,024	11,932	59,100	50,437	86,521	381,014
INTEREST SENSITIVITY GAP	**(93,578)**	**9,704**	**(14,365)**	**119,921**	**3,024**	**24,706**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

(ii) Interest rate risk (continued)

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The effective interest rates by major currency for monetary financial instruments not carried at fair value through profit or loss at 31 December 2012 and 31 December 2011 were in the following ranges:

		2012		2011
	IN USHS	IN FCY	IN USHS	IN FCY
ASSETS				
AMOUNTS DUE FROM BANKS	19%	4%	9%	3%
LOANS AND ADVANCES TO CUSTOMERS	28%	10%	20%	10%
INVESTMENT SECURITIES	12%	0%	11%	0%
LIABILITIES				
AMOUNTS DUE TO CUSTOMERS	12%	3%	9%	3%
AMOUNTS DUE TO BANKS	13%	3%	28%	3%
OTHER BORROWED FUNDS	11%	4%	10%	4%

d) Fair value of financial assets and liabilities

The fair value of held-to-maturity investment securities and other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Bank at the balance sheet date.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable on unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank market assumptions. These two types of inputs have created the following fair value hierarchy:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like the LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

• Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. The Bank considers relevant and observable market prices in its valuations where possible.

	LEVEL 1 USHS MILLIONS	LEVEL 2 USHS MILLIONS	LEVEL 3 USHS MILLIONS	TOTAL USHS MILLIONS
31 DECEMBER 2012				
ASSETS AND LIABILITIES MEASURED AT FAIR VALUE				
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 17)				
TRADING DERIVATIVES	12	-	-	12

As at 31 December 2012, the Bank did not have financial assets measured at fair value.

	LEVEL 1 USHS MILLIONS	LEVEL 2 USHS MILLIONS	LEVEL 3 USHS MILLIONS	TOTAL USHS MILLIONS
31 DECEMBER 2011				
ASSETS AND LIABILITIES MEASURED AT FAIR VALUE				
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 17)				
GOVERNMENT SECURITIES	-	-	-	-
TRADING DERIVATIVES	195	-	-	195
TOTAL	**195**	**-**	**-**	**195**

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 17)

As at 31 December 2011, the Bank did not have financial liabilities measured at fair value.

6. Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the Bank of Uganda;
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Uganda for supervisory purposes. The required information is filed with the Bank of Uganda on a monthly basis.

The Bank of Uganda required each bank to:

(a) hold the minimum level of capital funds unimpaired by losses of Ushs 10 billion (2011: Ushs 4 billion);

(b) maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; and

(c) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off balance sheet items.

6. Capital management (continued)

The Bank's total regulatory capital is divided into two tiers:

• Tier 1 capital (core capital): share capital, share premium, prior year retained earnings, current year retained profit, general reserves that are permanent, unencumbered and able to absorb losses, less deductions that include goodwill and other intangible assets, current year's losses, investments in unconsolidated financial subsidiaries, deficiencies in provisions for losses, prohibited loans to insiders, and other deductions as determined by the Central Bank;

• Tier 2 capital (supplementary capital): revaluation reserves, unencumbered general provisions for bad debts not exceeding 1.25% of risk weighted assets, subordinated debt not exceeding 50% of Tier 1 capital subject to a discount factor, hybrid capital instruments, and a general credit risk reserve. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

CAPITAL RATIOS PER FINANCIAL INSTITUTIONS ACT (FIA) 2004

	CAPITAL AMOUNT		BANK RATIO		FIA 2004 MINIMUM RATIO	
	2012	2011	2012	2011	2012	2011
	USHS MILLIONS	USHS MILLIONS	%	%	%	%
PERMANENT SHAREHOLDERS' EQUITY	25,000	20,919				
SHARE PREMIUM	5,390	6,086				
PRIOR YEAR RETAINED EARNINGS	12,481	9,851				
NET AFTER-TAX PROFITS FOR THE YEAR	9,749	6,246				
LESS: UNREALIZED FOREIGN EXCHANGE GAINS	(3,753)	(197)				
LESS: INTANGIBLE ASSETS	(1,964)	(1,015)				
LESS: DEFERRED INCOME TAX ASSETS	(3,566)	(1,205)				
CORE CAPITAL (TIER 1)	**43,337**	**40,685**	**13.6**	**12.6**	**8.0**	**8.0**
UNENCUMBERED GENERAL PROVISIONS	2,958	2,465				
SUBORDINATED TERM DEBT	8,187	7,556				
SUPPLEMENTARY CAPITAL (TIER 2)	11,145	10,021				
TOTAL CAPITAL (TIER 1 + TIER 2)	**54,482**	**50,706**	**17.1**	**15.7**	**12.0**	**12.0**

BALANCE SHEET ASSETS (NET OF PROVISIONS)

	BALANCE SHEET AMOUNT		RISK WEIGHT %	RISK WEIGHTED AMOUNT	
	2012	2011		2012	2011
	USHS MILLIONS	USHS MILLIONS		USHS MILLIONS	USHS MILLIONS
CASH AND BALANCES WITH BANK OF UGANDA	60,811	47,552	0%	-	-
AMOUNTS DUE FROM OTHER BANKS:					
RATED AAA TO AA(-)	21,246	32,321	20%	4,249	6,464
RATED A(+) TO A(-)	3,205	9,689	50%	1,603	4,845
RATED A(-) AND NON RATED	854	985	100%	854	985
AMOUNTS DUE FROM GROUP COMPANIES	8,786	8,941	100%	8,786	8,941
LOANS AND ADVANCES TO CUSTOMERS	240,468	242,792	100%	240,468	242,792
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	195	100%	-	195
INVESTMENT SECURITIES AT FV THROUGH P&L	-	393	0%	-	-
INVESTMENT SECURITIES HELD TO MATURITY	81,080	63,047	0%	-	-
PROPERTY AND EQUIPMENT	16,092	16,813	100%	16,092	16,813
INTANGIBLE ASSETS (OFFSET AGAINST CORE CAPITAL)	1,964	1,015	0%	-	-
TAX RECOVERABLE	364	683	0%	-	-
DEFERRED TAX ASSETS (OFFSET AGAINST CORE CAPITAL)	3,566	1,205	0%	-	-
OTHER ASSETS	8,459	6,037	100%	8,459	6,037
ON BALANCE SHEET ASSETS	**446,895**	**431,668**		**280,511**	**287,072**

OFF-BALANCE SHEET POSITIONS

CONTINGENTS SECURED BY CASH COLLATERAL	2,331	2,651	0%	-	-
PERFORMANCE BONDS	52,035	41,176	50%	26,018	20,588
LETTERS OF CREDIT AND ACCEPTANCES	29,500	44,970	20%	5,900	8,994
COMMITMENTS TO LEND	13,212	13,328	50%	6,606	6,664
OFF BALANCE SHEET ITEMS	**97,078**	**102,125**		**38,524**	**36,246**
TOTAL RISK-WEIGHTED ASSETS	**543,973**	**533,793**		**319,035**	**323,318**

7. Interest income

	2012	2011
	USHS MILLIONS	USHS MILLIONS
LOANS AND ADVANCES	49,726	33,158
GOVERNMENT SECURITIES	8,187	6,251
SHORT TERM PLACEMENTS	797	589
TOTAL	58,710	39,998
ANALYSED BY ASSET CLASSIFICATION:		
HELD TO MATURITY INVESTMENTS	8,187	6,251
LOANS AND RECEIVABLES	50,523	33,747
TOTAL	58,710	39,998

8. Interest expense

	2012	2011
	USHS MILLIONS	USHS MILLIONS
CUSTOMER DEPOSITS	17,590	11,155
DEPOSITS BY OTHER BANKING INSTITUTIONS	4,379	3,796
BORROWED FUNDS	2,597	1,970
OTHER	1,495	1,572
TOTAL	26,061	18,493

9. Fee and commission income

	2012	2011
	USHS MILLIONS	USHS MILLIONS
TRANSACTIONAL FEES AND COMMISSION INCOME	11,044	9,358
CREDIT RELATED FEES AND COMMISSION INCOME	4,689	2,068
TOTAL	15,733	11,426

10. Fee and commission expense

	2012	2011
	USHS MILLIONS	USHS MILLIONS
TRANSACTIONAL FEES AND COMMISSION EXPENSE	1,553	1,151
CREDIT RELATED FEES AND COMMISSION EXPENSE	205	8
TOTAL	1,758	1,159

11. Net foreign exchange gains

	2012	2011
	USHS MILLIONS	USHS MILLIONS
REALISED FOREIGN EXCHANGE (LOSSES) / GAINS	(1,153)	3,237
UNREALISED FOREIGN EXCHANGE GAINS	3,753	197
TOTAL	2,600	3,434

12. Operating expenses

	2012	2011
	USHS MILLIONS	USHS MILLIONS
STAFF COSTS (NOTE 13)	16,316	12,606
DEPRECIATION	3,055	2,452
AMORTISATION OF INTANGIBLE ASSETS	624	544
AMORTISATION OF OPERATING LEASE PREPAYMENTS	34	25
AUDITORS' REMUNERATION	105	86
DIRECTORS' EXPENSES	473	194
OCCUPANCY COSTS	2,954	2,406
COMMUNICATION EXPENSES	1,562	1,356
REPAIRS AND MAINTENANCE	1,526	1,499
MANAGEMENT SERVICE COSTS	1,412	1,656
MARKETING COSTS	1,611	1,205
DONATIONS AND SUBSCRIPTIONS	94	111
SECURITY	1,157	971
OTHER ADMINISTRATIVE EXPENSES	286	419
DEPOSIT PROTECTION FUND CONTRIBUTION	527	387
TRAVELLING EXPENSES	530	634
PRINTING AND STATIONERY	670	615
INSURANCE COSTS	323	279
LEGAL AND PROFESSIONAL FEES	388	35
WRITE OFF OF UNRECOVERABLE ACCOUNT CHARGES	669	584
LOSS ON SALE OF PROPERTY AND EQUIPMENT	11	1
TOTAL	34,327	28,065

13. Staff costs

	2012 USHS MILLIONS	2011 USHS MILLIONS
SALARIES AND WAGES	13,483	10,200
NSSF CONTRIBUTIONS	993	824
DEFINED CONTRIBUTION SCHEME CONTRIBUTIONS	256	215
OTHER STAFF COSTS	1,584	1,367
TOTAL	16,316	12,606

14. Taxation

	2012 USHS MILLIONS	2011 USHS MILLIONS
(A) TAXATION (CREDIT) / CHARGE		
CURRENT TAXATION CHARGE – CURRENT YEAR	1,464	938
DEFERRED TAXATION CREDIT – CURRENT YEAR	(2,361)	(391)
TOTAL	(897)	547
(B) RECONCILIATION OF TAXATION (CREDIT) / CHARGE		
ACCOUNTING PROFIT BEFORE TAXATION	8,852	6,793
TAX AT APPLICABLE RATE OF 30%	2,656	2,038
INCOME NOT SUBJECT TO TAX	(3,147)	(2,247)
TAX EFFECT OF NON-DEDUCTIBLE ITEMS	308	204
FINAL TAX ON INVESTMENTS	1,464	938
PRIOR YEAR DEFERRED TAX OVER PROVISION	(2,178)	(385)
TAXATION (CREDIT) / CHARGE	(897)	547
(C) TAX RECOVERABLE		
AS AT 1 JANUARY	683	617
CURRENT TAX CHARGE	(1,464)	(938)
TAX PAID	1,145	1,004
TOTAL	364	683

15. Cash and balances whith Bank of Uganda (BOU)

	2012	2011
	USHS MILLIONS	USHS MILLIONS
CASH ON HAND	34,123	24,473
BALANCES WITH BOU (CASH RESERVE REQUIREMENT)	26,688	23,079
TOTAL	60,811	47,552

Banks are required to maintain a prescribed minimum cash balance with the Bank of Uganda that is not available to finance the Bank's day-to-day activities. The amount is determined as 8.5% of the average outstanding customer deposits over a cash reserve cycle period of two weeks.

16. Deposits and balances due from other banking institutions

	2012	2011
	USHS MILLIONS	USHS MILLIONS
BALANCES DUE FROM OTHER BANKING INSTITUTIONS - OUTSIDE UGANDA	22,604	41,993
DEPOSITS WITH OTHER BANKING INSTITUTIONS - INSIDE UGANDA	2,701	1,002
TOTAL	25,305	42,995

The deposits with other banking institutions are interest bearing.

17. Government securities and derivatives

	2012	2011
	USHS MILLIONS	USHS MILLIONS
(A) HELD TO MATURITY INVESTMENTS – AT AMORTISED COST		
TREASURY BILLS		
FACE VALUE		
MATURING WITHIN 90 DAYS	19,150	14,608
MATURING AFTER 90 DAYS	43,730	2,091
TOTAL	62,880	16,699
UNEARNED INTEREST	(3,351)	(598)
TOTAL	59,529	16,101
TREASURY BONDS		
MATURING AFTER 90 DAYS	24,010	53,042
TOTAL	24,010	53,042
UNEARNED INTEREST	(2,459)	(5,804)
TOTAL	21,551	47,238
LISTED DEBT SECURITIES		
MATURING AFTER 90 DAYS	-	101
TOTAL	81,080	63,440

17. Government securities and derivatives (continued)

(B) DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank uses the following derivative instruments for non-hedging purposes:

Currency forwards held represent commitments to purchase foreign and domestic currency.

Currency swaps held are commitments to exchange one set of cash flows for another and result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for lending activities.

The derivative instruments held become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The derivatives held by the Bank are classified as financial assets at fair value through the profit or loss. The fair values of derivative financial instruments held are set out below:

	2012	2011
	USHS MILLIONS	USHS MILLIONS
CURRENCY SWAPS	(12)	195

18. Loans and advances to customers

	2012 USHS MILLIONS	2011 USHS MILLIONS
(A) ANALYSIS OF LOAN ADVANCES TO CUSTOMERS BY CATEGORY:		
TERM LOANS		
- STAFF	3,282	2,362
- OTHER	187,548	189,480
OVERDRAFTS	58,340	53,508
DISCOUNTED BILLS	-	7
GROSS LOANS AND ADVANCES	**249,170**	**245,357**
PROVISIONS FOR IMPAIRMENT OF LOANS AND ADVANCES		
SPECIFIC ALLOWANCE - (NOTE 19(A))	(8,702)	(2,565)
NET LOANS AND ADVANCES	**240,468**	**242,792**

Included in the loans and advances, are balances amounting to Ushs 18,252 million (2011 – Ushs 4,755 million) net of specific provisions, which have been classified as non-performing.

(B) CREDIT CONCENTRATION ABOVE 25% OF TOTAL CAPITAL

As at 31 December 2012, the Bank had no borrowers with advances or credit facilities exceeding 25% of its total capital.

(C) THE MATURITY ANALYSIS OF ADVANCES TO CUSTOMERS IS AS FOLLOWS:

	2012 USHS MILLIONS	2011 USHS MILLIONS
WITHIN THREE MONTHS	81,246	83,051
BETWEEN THREE AND SIX MONTHS	15,649	11,326
OVER SIX MONTHS	152,275	150,980
GROSS ADVANCES TO CUSTOMERS	**249,170**	**245,357**

(D) GROSS ADVANCES TO CUSTOMERS BY INDUSTRY COMPOSITION:

	2012 USHS MILLIONS	2011 USHS MILLIONS
TRADE AND COMMERCE	87,114	92,238
AGRICULTURE	10,776	12,013
MANUFACTURING	20,050	18,073
TRANSPORT & COMMUNICATION	11,475	11,832
BUILDING AND CONSTRUCTION	39,790	36,983
PERSONAL, SERVICE INDUSTRY AND OTHERS	79,965	74,218
TOTAL	**249,170**	**245,357**

19. Provisions for impaired loans and advances

	INDIVIDUALLY ASSESSED	COLLECTIVELY ASSESSED	TOTAL
	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS
(A) MOVEMENT IN PROVISIONS			
2011			
AT 1 JANUARY	1,491	977	2,468
PROVISION FOR LOAN IMPAIRMENT	3,634	-	3,634
AMOUNTS RECOVERED DURING THE YEAR	(2,191)	-	(2,191)
TRANSFERS	(455)	455	-
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(1,346)	-	(1,346)
AT 31 DECEMBER	**1,133**	**1,432**	**2,565**
2012			
AT 1 JANUARY	1,133	1,432	2,565
PROVISION FOR LOAN IMPAIRMENT	10,019	-	10,019
AMOUNTS RECOVERED DURING THE YEAR	(3,656)	-	(3,656)
TRANSFERS	49	(49)	-
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(226)		(226)
AT 31 DECEMBER	**7,319**	**1,383**	**8,702**

(B) IMPAIRMENT LOSSES CHARGED TO PROFIT OR LOSS

	2012	2011
	USHS MILLIONS	USHS MILLIONS
PROVISION FOR LOAN IMPAIRMENT (NOTE19 (A))	10,019	3,634
AMOUNTS RECOVERED DURING THE YEAR (NOTE 19 (A))	(3,656)	(2,191)
TOTAL	**6,363**	**1,443**

(C) REGULATORY RESERVE

	2012	2011
	USHS MILLIONS	USHS MILLIONS
ANALYSIS AS PER BANK OF UGANDA GUIDELINES		
TOTAL PROVISION AS PER IFRS		
SPECIFIC PROVISION (NOTE 19(A))	8,702	2,565
GENERAL PROVISION	-	-
TOTAL	8,702	2,565
TOTAL PROVISIONS AS PER BOU GUIDELINES	-	-
SPECIFIC PROVISIONS	9,069	2,565
GENERAL PROVISIONS	2,591	2,465
TOTAL	11,660	5,030
REGULATORY RESERVE		
AT 1 JANUARY	(2,465)	(1,559)
TRANSFER TO THE REGULATORY RESERVE	(493)	(906)
AT 31 DECEMBER	(2,958)	(2,465)

20. Other assets

	2012	2011
	USHS MILLIONS	USHS MILLIONS
ACCOUNTS RECEIVABLE AND PREPAYMENTS	2,928	3,154
ITEMS IN TRANSIT	1,902	1,115
STATIONERY STOCKS	203	240
OTHER	187	453
TOTAL	5,220	4,962

21. Property and equipment

	BUILDINGS	MOTOR VEHICLES	FIXTURES, FITTINGS & EQUIPMENT	WORK IN PROGRESS	TOTAL
	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS	USHS MILLIONS
COST					
AT 1 JANUARY 2011	3,470	359	14,810	1,321	19,960
ADDITIONS	-	119	2,929	2,153	5,201
DISPOSALS	-	(88)	(17)		(105)
TRANSFERS FROM WIP	-	227	928	(1,155)	-
TRANSFER FROM WIP (NOTE 23)	-	-	-	(166)	(166)
AT 31 DECEMBER 2011	**3,470**	**616**	**18,650**	**2,153**	**24,890**
AT 1 JANUARY 2012	3,470	616	18,650	2,153	24,889
ADDITIONS	-	109	2,190	1,005	3,304
DISPOSALS	-	-	(20)	-	(20
TRANSFERS FROM WIP	-	-	1,196	(1,196)	-
TRANSFER FROM WIP (NOTE 23)	-	-	-	(957)	(957)
WRITE-OFFS	-	-	(2,288)	-	(2,288)
AT 31 DECEMBER 2012	**3,470**	**725**	**19,728**	**1,005**	**24,928**
DEPRECIATION					
AT 1 JANUARY 2011	319	174	5,187	-	5,680
CHARGE FOR THE YEAR	73	149	2,230	-	2,452
ELIMINATED ON DISPOSAL	-	(48)	(8)	-	(56)
AT 31 DECEMBER 2011	**392**	**275**	**7,409**	**-**	**8,076**
AT 1 JANUARY 2012	392	275	7,409	-	8,076
CHARGE FOR THE YEAR	73	173	2,809	-	3,055
ELIMINATED ON DISPOSAL	-	-	(7)	-	(7)
ELIMINATED ON WRITE-OFFS	-	-	(2,288)	-	(2,288)
AT 31 DECEMBER 2012	**465**	**448**	**7,923**	**-**	**8,836**
NET BOOK VALUE					
AT 31 DECEMBER 2012	**3,005**	**277**	**11,805**	**1,005**	**16,092**
AT 31 DECEMBER 2011	**3,078**	**341**	**11,241**	**2,153**	**16,814**

Capital work in progress represents costs incurred in relocation of branches and installation of software for mobile banking and agency banking.

22. Operating lease prepayments

	2012	2011
	USHS MILLIONS	USHS MILLIONS
COST		
AT 1 JANUARY	1,242	1,242
ADDITIONS	2,198	-
AT 31 DECEMBER	3,440	1,242
AMORTISATION		
AT 1 JANUARY	167	142
CHARGE FOR THE YEAR	34	25
AT 31 DECEMBER	201	167
NET BOOK VALUE		
AT 31 DECEMBER	3,239	1,075

23. Intangible assets

	2012	2011
	USHS MILLIONS	USHS MILLIONS
COST		
AT 1 JANUARY	2,899	2,690
ADDITIONS: COMPUTER SOFTWARE	617	43
TRANSFERS FROM WORK IN PROGRESS (NOTE 21)	956	166
WRITE-OFFS	(175)	-
AT 31 DECEMBER	4,298	2,899
AMORTISATION		
AT 1 JANUARY	1,884	1,340
CHARGE FOR THE YEAR	624	544
AMORTISATION ON WRITE-OFFS	(175)	-
AT 31 DECEMBER	2,333	1,884
NET BOOK VALUE		
AT 31 DECEMBER	1,964	1,015

The intangible assets relate to computer software acquired to support the Bank's operations. This software is not an integral part of the related computer hardware and has therefore been presented as an intangible asset in accordance with IAS 38, Intangible assets.

24. Customer deposits

	2012	2011
	USHS MILLIONS	USHS MILLIONS
(A) CUSTOMERS DEPOSITS		
CURRENT AND DEMAND DEPOSITS	109,515	112,174
SAVINGS ACCOUNTS	78,408	70,936
FIXED DEPOSIT ACCOUNTS	109,303	93,205
MARGIN DEPOSITS	2,696	1,869
TOTAL	299,922	278,184
(B) SECTORAL ANALYSIS - CUSTOMER DEPOSITS		
BANKS AND FINANCIAL INSTITUTIONS	29,605	34,330
PRIVATE ENTERPRISES AND INDIVIDUALS	74,417	58,628
GOVERNMENT AND PARASTATALS	-	10,713
AGRICULTURE	6,451	6,414
BUILDING AND CONSTRUCTION	21,523	33,087
MANUFACTURING	5,689	7,732
TRADE AND COMMERCE	43,751	38,592
TRANSPORT AND UTILITIES	13,697	9,692
OTHER SERVICES	104,789	78,996
TOTAL	299,922	278,184

25. Deposits and balances due to other banking institutions

	2012	2011
	USHS MILLIONS	USHS MILLIONS
ITEMS IN COURSE OF COLLECTION	152	19
TERM DEPOSITS	16,902	38,535
TOTAL	17,054	38,554

The deposits with other banking institutions are interest bearing.

26. Other borrowings

	2012	2011
	USHS MILLIONS	USHS MILLIONS
EIB - UGANDA APEX PRIVATE SECTOR LOAN SCHEME	-	112
EIB - PRIVATE ENTERPRISE FINANCE FACILITY	13,006	1,261
FMO - TERM FACILITY	27,262	26,942
PROPARCO – SUBORDINATED LOAN	8,187	7,556
BOU AGRICULTURAL CREDIT FACILITY	3,862	3,372
IFC TERM FACILITY	11,612	12,414
TOTAL	63,929	51,657

The movement on the loans balances is as follows:

	2012	2011
	USHS MILLIONS	USHS MILLIONS
AT 1 JANUARY	51,657	18,078
BORROWINGS RECEIVED	12,016	33,290
INTEREST PAYABLE	256	289
AT 31 DECEMBER	63,929	51,657

The European Investment Bank (EIB) – Uganda APEX Private Sector Loan Scheme relates to a line of credit granted through Bank of Uganda for on-lending to qualifying customers by approved financial institutions accredited by the Ministry of Finance, Planning and Economic Development in consultation with Bank of Uganda and the European Investment Bank. These funds are for a minimum period of five years and attract a rate of interest equivalent to the weighted average rate of time deposits. The rates are either fixed or flexible.

The International Finance Corporation (IFC) term facility provides funding to be used by the Bank to finance its lending operations to small, medium enterprises, retail and corporate business in accordance with the provisions of the agreement. The interest rate for any relevant period shall be the sum of the relevant spread and LIBOR on the interest determination date for that interest period for 6(six) months. The funds are advanced for a period of five years.

The EIB - Private Enterprise Finance Facility relates to a line of credit granted to the Bank for financing projects to be carried out in Uganda by private enterprises or microfinance institutions in selected sectors. Each tranche of these funds attracts a fixed rate based on the twelve month average of interest rates offered by Ugandan deposit-taking banks for three months term deposits as published by Bank of Uganda plus a margin. Each tranche has a minimum tenor of three years and a maximum tenor of ten years.

The FMO Term Facility is a line of credit granted to the Bank to on-lend to eligible sub-borrowers with matching funds provided by the Bank. The Euro denominated funds attract a floating rate of interest equivalent to the weighted average deposit rate of banks in Uganda as published by the Central Bank plus a margin. The US Dollar denominated funds attract an interest rate per annum which is the aggregate of the applicable margin and LIBOR. These funds have a tenor of five years.

The PROPARCO subordinated loan is a US$ 3 million debt granted to the Bank for a term of seven years including a grace period for principal payments of five years. The loan attracts a floating rate of interest and is registered as Tier 2 Capital under the conditions prescribed by Bank of Uganda for purposes of computation of capital adequacy.

26. Other borrowings (continued)

The Bank of Uganda (BOU) Agricultural Credit Facility relates to a partnership between the Government of Uganda and commercial banks to facilitate farmers in acquisition of agricultural and agro-processing machinery and equipment. This facility attracts a fixed interest rate of 10% and has a maximum tenor of eight years.

27. Other liabilities

	2012	2011
	USHS MILLIONS	USHS MILLIONS
BILLS PAYABLE	756	549
CREDITORS	2,090	1,298
ACCRUALS	1,824	3,215
OTHER	13	25
TOTAL	4,683	5,087

28. Deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable tax rate of 30%.
The net deferred tax asset comprises:

	2012	2011
	USHS MILLIONS	USHS MILLIONS
ACCELERATED CAPITAL ALLOWANCES	(1,984)	(1,568)
TAX LOSSES BROUGHT FORWARD	4,267	2,144
PROVISIONS FOR LOAN IMPAIRMENT	(111)	309
OTHER PROVISIONS	268	261
UNREALISED TRANSLATION DIFFERENCES	1,126	59
NET DEFERRED TAX ASSET	3,566	1,205

The movement on the deferred tax asset account is as follows:

AT 1 JANUARY	1,205	814
INCOME STATEMENT CREDIT - CURRENT YEAR (NOTE 14)	2,361	391
AT 31 DECEMBER	3,566	1,205

29. Share capital

	NUMBER OF SHARES ISSUED & FULLY PAID	ORDINARY SHARES	SHARE PREMIUM
	(THOUSANDS)	USHS MILLIONS	USHS MILLIONS
2011			
BALANCE AT 1 JANUARY 2011	8,666	8,666	9,420
BONUS ISSUE OF SHARES	3,334	3,334	(3,334)
RIGHTS ISSUE OF SHARES	8,919	8,919	-
BALANCE AT 31 DECEMBER 2011	**20,919**	**20,919**	**6,086**
2012			
BALANCE AT 1 JANUARY 2012	20,919	20,919	6,086
RIGHTS ISSUE OF SHARES	3,385	3,385	-
BONUS ISSUE OF SHARES	696	696	(696)
BALANCE AT 31 DECEMBER 2012	**25,000**	**25,000**	**5,390**

The total authorised number of ordinary shares is Ushs 26.9 million (2011: 25 million) with a par value of Ushs 1,000 per share.

In December 2011 the board approved a rights issue of 12,303,650 shares at par value which were payable by 31 January 2012 of which 8,918,916 shares were fully paid up by end of 2011. This brought the total issued ordinary shares to 25 million with a per value of Ushs 1,000 per share.

In February 2012, the Board approved a bonus issue of 696,350 shares (2011: 3,333,856) at par value. The bonus issue was financed by the share premium. The remaining 3,384,734 shares were paid up by the end of 31 January 2012. All issued shares were subsequently allotted on 31 January 2012.

30. Bank shareholding

The Bank shareholders are comprised of the following:

SHAREHOLDING:	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA – KENYA LTD.	50.01%	KENYA
AFRICAN FINANCIAL HOLDING (AFH) - OCEAN INDIEN	22.48%	MAURITIUS
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	17.51%	THE NETHERLANDS
CENTRAL HOLDINGS LTD.	10.00%	UGANDA
TOTAL	**100.00%**	

31. Dividends

The proposed dividend for the year is Ushs 273 per share amounting to Ushs 6,824 million (2011: dividend per share of Ushs 128 amounting to Ushs 3,123 million). No interim dividends were paid in respect of the year (2011: Nil). The payment of dividends is subject to withholding tax at 15% or the rate specified under an applicable double taxation agreement.

32. Analysis of cash and cash equivalents

	2012	2011
	USHS MILLIONS	USHS MILLIONS
CASH AND BALANCES WITH BANK OF UGANDA (NOTE 15)	60,811	47,552
LESS: CASH RESERVE REQUIREMENT (SEE BELOW)	(23,994)	(22,255)
GOVERNMENT SECURITIES -MATURING WITHIN 90 DAYS (NOTE 17)	19,150	14,608
PLACEMENTS WITH OTHER BANKS (NOTE 16)	25,305	42,995
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 34)	8,786	8,941
TOTAL	**90,058**	**91,841**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, and amounts due from other banks.

Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Uganda. Banks are required to maintain a prescribed minimum cash balance with the Bank of Uganda that is not available to finance the Bank's day-to-day activities. The amount is determined as 8.5% of the average outstanding customer deposits over a cash reserve cycle period of two weeks.

33. Earnings per share

	2012	2011
	USHS MILLIONS	USHS MILLIONS
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (USHS MILLIONS)	9,749	6,246
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES IN ISSUE (THOUSANDS)	25,000	12,702
BASIC EARNINGS PER SHARE (EXPRESSED IN USHS PER SHARE)	390	492

In December 2011, there was a rights issue of Ushs 12,304 million at par value which explains the increase in the weighted average number of ordinary shares in 2012.

There were no potentially dilutive shares outstanding at 31 December, 2012 (2011: Nil).

34. Related party balances

	2012	2011
	USHS MILLIONS	USHS MILLIONS
(A) DUE FROM GROUP COMPANIES		
BANK OF AFRICA – RDC	5,455	5,010
BOA-FRANCE	3,199	-
BANK OF AFRICA – KENYA	45	3,764
BANK OF AFRICA – TANZANIA	7	90
BMCE BANK INTERNATIONAL	80	77
TOTAL	**8,786**	**8,941**
(B) AMOUNTS DUE TO GROUP COMPANIES		
BANK OF AFRICA – MER ROUGE	5,496	12,458
BANK OF AFRICA – KENYA	-	80
BANK OF AFRICA – TANZANIA	4	66
BANK OF AFRICA – RDC	213	11
BMCE BANK INTERNATIONAL	4	4
TOTAL	**5,717**	**12,619**
(C) RELATED PARTY BALANCES		
DEPOSITS FROM DIRECTORS AND SHAREHOLDERS	4	4
LOANS TO DIRECTORS	457	28
ADVANCES TO STAFF	4,247	2,902
TOTAL	**4,704**	**2,930**
(D) RELATED PARTY TRANSACTIONS		
INTEREST		
INTEREST PAID TO RELATED PARTIES/DIRECTORS	116	58
INTEREST EARNED FROM RELATED PARTIES	417	51
DIRECTORS' REMUNERATION		
DIRECTORS' FEES	473	195
OTHER EMOLUMENTS	2,207	1,210
TOTAL	**2,680**	**1,405**
KEY MANAGEMENT COMPENSATION		
SALARIES AND SHORT-TERM BENEFITS	2,708	1,754
TERMINAL BENEFITS	79	44
TOTAL	**2,787**	**1,798**
EXPENSES		
AFH TECHNICAL SERVICES	1,412	1,656

35. Off-balance sheet financial instruments, contingent liabilities and commitments

The Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for purchase and sale of foreign currencies, the nominal amounts of which are not reflected in the balance sheet.

Letters of credit are commitments by the Bank to make payments to third parties, on production of documents, on behalf of customers and are reimbursed by customers. Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customers.

The following are the commitments outstanding at period-end:

	2012	2011
	USHS MILLIONS	USHS MILLIONS
ACCEPTANCES AND LETTERS OF CREDIT	29,500	44,970
GUARANTEE AND PERFORMANCE BONDS	54,366	43,827
TOTAL	83,866	88,797

Non-trade contingent liabilities

There were 26 outstanding legal proceedings against the Bank as at 31 December 2012 (2011: 16) which arise from normal day to day banking operations. The directors and management believe that the Bank has strong grounds for success in a majority of the cases and that they should get a ruling in their favour. In the opinion of the directors, after taking legal advice from the company lawyers, the estimated potential liability to the Bank from these proceedings is Ushs. 1.4 billion (2011: Ushs. 240 million).

Other commitments

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for fixed periods. The Bank may withdraw from its contractual obligations to extend credit by giving reasonable notice to the customers.

	2012	2011
	USHS MILLIONS	USHS MILLIONS
AT 31 DECEMBER, THESE INCLUDED:		
APPROVED ADVANCES NOT UTILIZED (CHANGEMENT TERME)	13,212	13,328

Personal notes

Personal notes

Personal notes