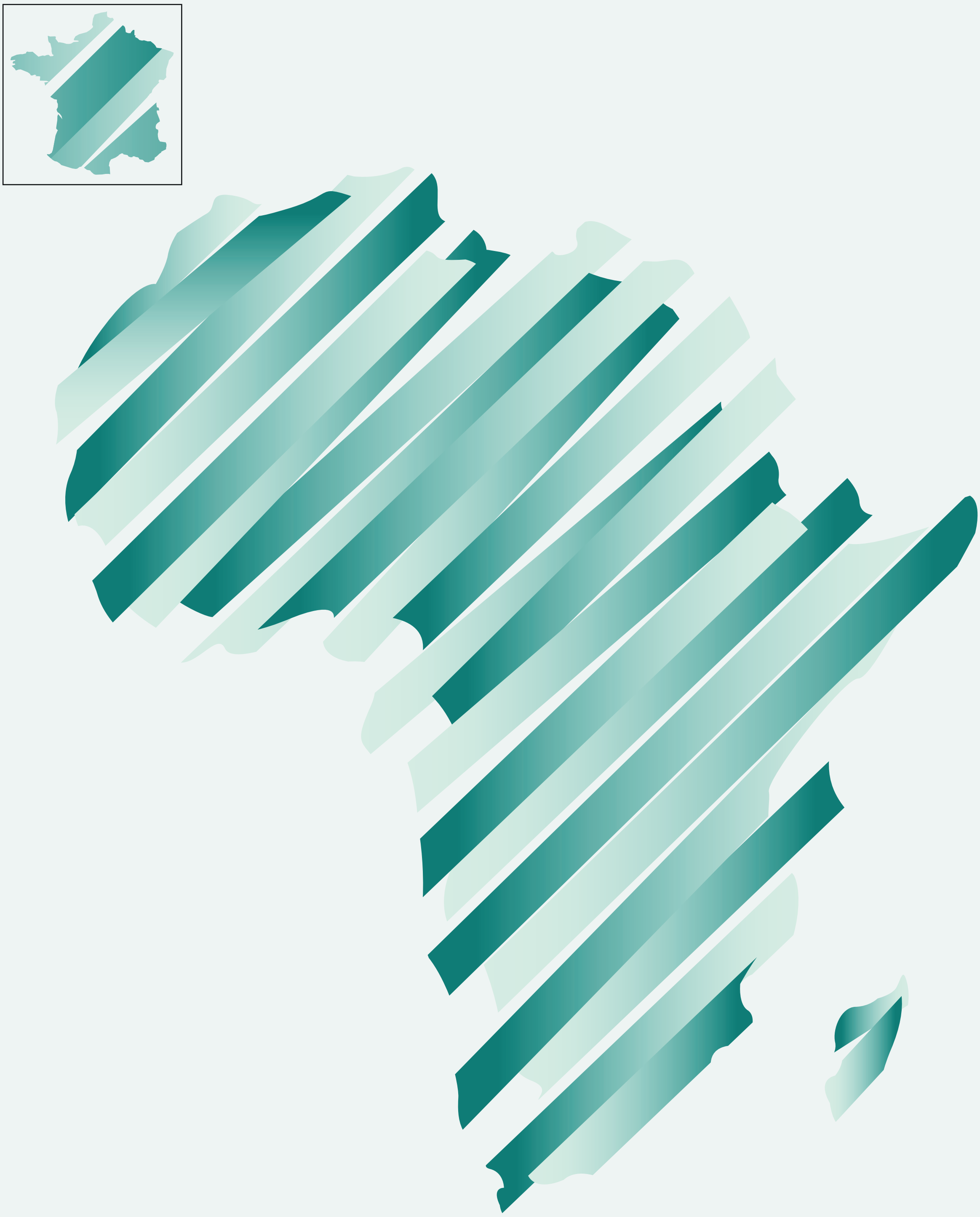
FINANCIAL STATEMENTS 2020

UGANDA



BANK OF AFRICA

BMCE GROUP

CONTENTS

Uganda

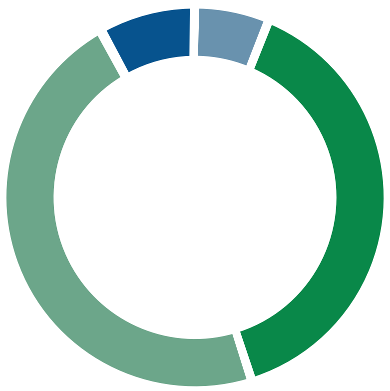
Opening date: October 2006.
Created in 1985: SEMBULE INVESTMENT BANK Ltd> ALLIED BANK. Integrated into BOA network in 2006.

Capital au 31/12/2020
Uganda Shillings (UGX)
46.775 billion

Auditors
KPMG

feedback@bouaganda.com
www.boauganda.com

Shareholders as at 31/12/2020



BANK OF AFRICA - KENYA LTD.	5.91%
AFRICAN FINANCIAL HOLDING (AFH)	38.92%
BMCE BANK OF AFRICA	47.41%
CENTRAL HOLDINGS LTD	7.76%

Presentation of results

The country's economic performance was challenged having receded by 1.2% in 2020 marred with pessimism within the business community much in line with previous sentiments. The Central Bank projects a GDP growth of 3 – 4% for the financial year 2020/21 only recovering to 5 – 6% in 2021/22 driven by resumption in domestic and foreign demand bolstered by optimism associated with the COVID-19 vaccine development complemented by fiscal and monetary policy actions. Inflation projections range between 5 – 6% in 2020/21 which is fairly within monetary policy targets while the fiscal deficit is projected to widen to close to near the East African Monetary Union threshold of 50% by end of the financial year 2020/21.

In 2020, the Bank's customer deposits enjoyed a 7% growth, while customer loans and advances largely remained subdued. However, investment in government paper grew by 54% as the Bank took steps to de-risk its balance sheet. Because the banking activity was negatively impacted, profitability also suffered characterised by a 4% decline in income. The 6% cost savings over prior year notwithstanding, an increase in impairment costs on account of proactive credit loss provisioning resulted into a 34% decline in net profit between 2019 and 2020.

Despite the turbulent business environment on account of the COVID-19 pandemic, the Bank enjoyed significant leaps in optimization of alternative customer channels, with more than 80% of the bank transactions being conducted outside the brick and motor Branch. Along with the specific sector focus, risk management and efficiencies, the Banks goals are set on growth to achieve improved profitability in 2021.

Key figures 2020

(In UGX million)

Activity	2019	2020	Variation
Deposits	578,563	617,559	6.7%
Loans	397,152	397,996	0.2%
Number of branches	34	34	0.0%
Structure			
Total Assets	803,070	880,819	9.7%
Shareholders' equity	123,523	136,897	10.8%
Number of employees	462	445	-3.7%
Income			
Net Operating income	98,769	95,031	-3.8%
Operating expenses (includind depreciation and amortization)	69,448	65,533	-5.6%
Gross operating profit	26,700	17,285	-35.3%
Cost of risk in value (*)	2,621	12,213	366.0%
Income Tax	6,546	3,911	-40.3%
Net income	20,154	13,374	-33.6%
Profit after tax	2,621	12,213	366.0%
Operating ratio (%)	70.3%	69.0%	-1.9%
Cost of risk (%)	0.7%	3.1%	334.4%
Return on Assets (ROA %)	2.5%	1.6%	-36.9%
Return on Equity (ROE %)	17.1%	10.3%	-40.0%
Solvabilité			
Tier 1	92,057	95,560	3.8%
Tier 2	4,901	5,318	8.5%
Risk Weighted Asset (RWA)	558,073	558,534	0.1%
Tier 1 + Tier 2 / RWA	17.4%	18.1%	4.2%

(*) Including general provision

Board of Directors as at 31/12/2020

George W. EGADDU
Chairman

Amine BOUABID

Abdelkabir BENNANI

Gertrude K. BYARUHANGA

Arthur ISIKO

Ghali LAHLOU

Musisi E. KIWANUKA

Henri LALOUX

Bernard R. MAGULU

Conrad K. NKUTU

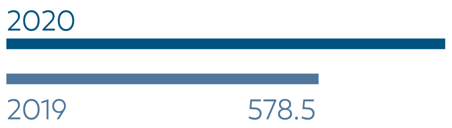
Registered Office

BANK OF AFRICA House
Plot 45, Jinja Road P.O. Box 2750
Kampala - UGANDA
Tel.: (256) 414 302001 - Fax: (256) 414 230 902
SWIFT: AFRIUGKA

Significant performances (in UGX billion)

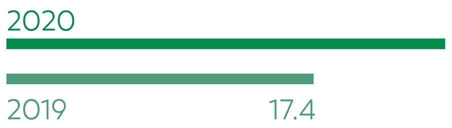
Deposits

617.5 +6.7%



Tier 1 + Tier 2 / RWA (%)

18.1 +4.2%



Stock information (in UGX)

	2018	2019	2020	AAGR*
Net earnings per share	0.3	0.4	0.3	-6.0%
Equity per share	2.4	2.6	2.9	10.6%
Dividend per share	0.2	0.2	0.1	-17.6%

(*) Average annual growth rate

Highlights

February

- Launched a brand thematic campaign to commemorate 35-year journey in Uganda and promote the long-term proposition and strategic orientation to the target segments and sectors, positioning BOA as a reliable partner.
- Participation in the Corporate League Tournament that brings together over 70 corporate organizations competing in several sports disciplines.
- Participation in the 4th edition of the "Uganda France friendship week" that celebrates the decades long friendship and development cooperation between the two countries.

March

- Together with one of the Bank's real estate mortgage partners Universal Multipurpose Enterprises Limited (UMEL), the Bank rewarded one of the lucky winners of the 'Christmas Magic in the Air' campaign.

November

- Signing of a partnership with Uganda Institute of Banking and Financial Services (UIBFS) for the first Banking and Financial Service awareness campaign dubbed "Your Money Can; Be Money Smart".

Participation in the 4th edition of the "Uganda France friendship week"

Corporate Social Responsibility

We recognize our role and responsibility to contribute to the development of all our stakeholders. 2020 was a year of unprecedent crisis for all, individuals, families, and businesses alike. We quickly reorientated our philanthropic endeavors to supporting recovery efforts and maintained an eye towards operational readiness whilst ensuring that our client and staff needs were swiftly met as the pandemic evolved.

We demonstrated our commitment to promote sustainable finance, business ethics, and responsible customer relationships as we immediately instituted and implemented a Covid-19 recovery support framework for the Bank's borrowed clients by issuing credit holidays up to 12 months.

Additionally, we optimized our digital transaction channels and other self-service resources for 24/7 account access during the pre and post lockdown period for our customers. We also waived all charges on the digital channels and encouraged customers to make use of the digital channels to conduct their daily banking activities to mitigate the spread of the virus.

We listened to community partners and through our umbrella body, Uganda Bankers Association contributed financial and in-kind support towards government efforts to curb the spread of the Corona Virus and its impact on communities. In the same period, we maintained our mass community engagement channels specifically radio and digital platforms reaching over 6 million beneficiaries countrywide with financial education programs in the period.

We remain committed to the goals championed in our mission - : to promote the growth and stability of our nation, but also strongly champion an inclusive recovery environment that works for all our stakeholders.

Corporate information

Registered office and principal place of business

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

Company Secretary

Rehmah Nabunya Plot 45, Jinja Road, P.O. Box 2750 - Kampala, Uganda.

Auditor

KPMG
Certified Public Accountants - 3rd floor, Rwenzori Courts Plot 2 & 4A, Nakasero Road - P.O. Box 3509 - Kampala, Uganda.

Branches

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

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

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

BUSINESS CENTRE
Plot 9, Kitante Road,
P.O. Box 2750 Kampala,
Uganda

ENTEBBE BRANCH
Kampala Road
P. O. Box 2750
Kampala, Uganda

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

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

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

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

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

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

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

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

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

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

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

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

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

MASAKA BRANCH
Plot 7, Birch Avenue
P. O. Box 2750 Kampala, Uganda

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

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

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

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

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

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

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

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

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

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

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

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

RUBIRIZI BRANCH
Mbarara – Kasese
Highway P. O. Box 1163
Mbarara, Uganda

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

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

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of BANK OF AFRICA – UGANDA Ltd ("the Bank"). The financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act, 2012 (Companies Act of Uganda) and the Ugandan Financial Institutions Act, 2004 (as amended in 2016).

1. Principal activities

The Bank is a licensed financial institution under the Financial Institutions Act and is a member of the Uganda Bankers Association. The Bank is engaged in the business of commercial banking and the provision of related banking services.

2. Results and dividend

The Bank's profit for the year ended 31 December 2020 was Shs 13,374 million (2019: profit of Shs 20,154 million) as shown in the statement of comprehensive income (Page 18).

The directors recommend that a dividend of Shs 145 per ordinary share be paid for the year ended 31 December 2020 (2019: 195). The total dividends for the year will be Shs 6,782 million (2019: Shs 9,121 million).

3. Directors

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

Mr. George William EGADDU	- Board Chairman
Mr. Amine M. BOUABID	- Non-Executive Director
Mr. Abdelkabir BENNANI	- Non-Executive Director
Mr. Ghali LAHLOU	- Non-Executive Director
Mr. Conrad Kirunda NKUTU	- Non-Executive Director
Ms. Gertrude K. BYARUHANGA	- Non-Executive Director
Mr. Musisi E. KIWANUKA	- Non-Executive Director (appointed 21 February 2020)
Mr. Henri LALOUX	- Non-Executive Director
Mr. Arthur ISIKO	- Managing Director
Mr. Bernard R. MAGULU	- Executive Director

4. Corporate governance

The Bank 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.

5. Board of Directors

The Bank has a broad-based board of directors. As at 31 December 2020, the Board of Directors consisted of 10 members. The board functions as a full board and through various committees constituted to oversee specific operational areas. The board has constituted five committees. These are the Risk Management Committee, Asset and Liability Management Committee, Compensation Committee, Audit Committee, and the Credit Committee. All board committees are constituted and chaired by non-executive directors. The membership on these committees at 31 December 2020 was as follows:

COMMITTEE	CHAIRPERSON	MEMBERSHIP	MEETING FREQUENCY
Risk Management	Non-executive director	3 non-executive 2 executive	
Asset and Liability Management	Non-executive director	3 non-executive 1 executive	
Compensation	Non-executive director	4 non-executive	Quarterly
Audit	Non-executive director	4 non-executive	
Credit	Non-executive director	4 non-executive 1 executive	

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.

6. Auditor

The auditor, KPMG, will not seek re-appointment at the annual general meeting in accordance with Section 159(2) of the Companies Act of Uganda, having completed the fourth year of continuous service under section 62 (1) of the Financial Institution Act, 2004 (as amended 2016).

7. Approval of the financial statements

The Financial Statements were approved at the meeting of the directors held on 25th March 2021.

By order of the Board

Rehmah NABUNYA
Secretary
Date: 25th March 2021

Statement of Directors' Responsibilities

The Bank's directors are responsible for the preparation and fair presentation of the financial statements for BANK OF AFRICA - UGANDA Ltd ("the Bank") set out on pages 18 to 74, comprising the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in equity and cashflows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, the Companies Act of Uganda, and the Financial Institutions Act, 2004 (as amended in 2016).

The Directors are also responsible for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the business will not be a going concern for the next twelve months from the date of this statement.

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the International Financial Reporting Standards (IFRS), Companies Act of Uganda and Financial Institutions Act 2004 (as amended 2016).

Approval of the financial statements

The financial statements of BANK OF AFRICA – UGANDA Ltd , were approved and authorised for issue by the board of directors on 25th March 2021.

Director Director Director

Independent auditor's report

Report on the audit of the financial statements

Opinion

We have audited the financial statements of BANK OF AFRICA - UGANDA Limited ("the Bank") set out on pages 18 to 74, which comprise the statement of financial position as at 31 December 2020, and the statements of comprehensive income, changes in equity and cashflows for the year then ended, and the notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BANK OF AFRICA - UGANDA Limited as at 31 December 2020, and of its financial performance and its cashflows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act of Uganda and the Financial Institutions Act, 2004 (as amended in 2016).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements taken as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Key Audit Matter	How the matter was addressed in our audit

Expected credit loss on loans and advances to customers

The disclosures associated with loans and advances are set out in the Financial Statements in the following notes:

- Note 2.4 (c)
- Note 2.6 (b) – Summary of significant accounting policies
- Note 3 (a) – Financial risk management
- Note 17

The Bank has recognised Expected Credit Losses ("ECL") on financial instruments which involves significant judgement and estimates. ECL on loans and advances to customers is considered a key audit matter because the directors make significant judgments over both timing of recognition of impairment and the estimation of the size of any such impairment.

The Key Audit Matter	How the matter was addressed in our audit
During the year ended 31 December 2020, the Bank reported Expected credit loss provisions of Ushs 14,561 million. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's ECL calculation are: **Model estimations** - inherently judgemental modelling is used to estimate ECL which involves determining probabilities of default («PD»), loss given default («LGD»), and exposures at default («EAD»). The PD models used in the portfolios are the key drivers of the Bank's ECL results and are therefore the most significant judgemental aspect of the Bank's ECL modelling approach. **Economic scenarios** - IFRS 9 requires the Bank to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them. **Significant Increase in Credit Risk ('SICR')** - the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12-month or lifetime provision is recorded. **Qualitative Adjustments** - Management raises qualitative adjustments to the model driven ECL results to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts. As a result of these matters, we determined that the impairment of loans and advances to customers is a Key Audit Matter due to the high degree of estimation uncertainty and the significant judgement involved in determining the ECL.	Our audit procedures in this area included, among others: - Performing end to end process walkthroughs to identify the key systems applications and controls used in the ECL processes. - Involving our own internal financial risk modelling specialists in evaluating the appropriateness of the Bank's ECL methodologies (including the SICR criteria used) and assessing the appropriateness of the Bank's methodology for determining the economic scenarios. - Assessing the probability of default, loss given default and exposure at default assumptions by evaluating the reasonableness of the model predictions by comparing them against actual results. - Obtaining a sample and evaluating key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts, weights and PD assumptions applied; key aspects of the Bank's significant increase in credit risk determinations. - Assessing model predictions against actual results and considering the size and complexity of management overlays, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample back to source data. - Assessing the adequacy of disclosures in the financial statements especially whether the disclosures appropriately disclose the key assumptions and judgements used in determining the expected credit losses.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

As stated on page 5, 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 Companies Act of Uganda, the Financial Institutions Act, 2004 (as amended in 2016) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

ii) 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 statements of financial position and comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Asad Lukwago P0365.

KPMG

Certified Public Accountants
3rd Floor, Rwenzori Courts
Plot 2 & 4A, Nakasero Road
P O Box 3509
Kampala, Uganda

Date: 29th April 2021

Statement of comprehensive income

	NOTES	2020 SHS M	2019 SHS M
INTEREST INCOME	5	79,676	75,114
INTEREST EXPENSE	6	(14,066)	(12,034)
NET INTEREST INCOME		**65,610**	**63,080**
FEE AND COMMISSION INCOME	7	21,624	25,141
FEE AND COMMISSION EXPENSE	8	(6,338)	(4,811)
NET FEE AND COMMISSION INCOME		**15,286**	**20,330**
NET FOREIGN EXCHANGE GAINS	9	12,568	10,199
OTHER OPERATING INCOME	10	1,567	5,160
NET OTHER OPERATING INCOME		**14,135**	**15,359**
REVENUE		**95,031**	**98,769**
EXPECTED CREDIT LOSS ON FINANCIAL ASSETS	17 (B)	(12,213)	(2,621)
PERSONNEL EXPENSES	12	(34,607)	(39,149)
DEPRECIATION AND AMORTISATION	11	(7,853)	(7,091)
OTHER EXPENSES	11	(23,073)	(23,208)
OPERATING EXPENSES	**11**	**(65,533)**	**(69,448)**
PROFIT BEFORE INCOME TAX		**17,285**	**26,700**
INCOME TAX EXPENSE	13	(3,911)	(6,546)
PROFIT FOR THE YEAR		**13,374**	**20,154**
OTHER COMPREHENSIVE INCOME			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13,374**	**20,154**
EARNINGS PER SHARE – BASIC AND DILUTED (SHS PER SHARE)	**30**	**285.92**	**430.87**

The notes set out on pages 22 to 74 form an integral part of these financial statements.

Statement of financial position

	NOTES	2020 SHS M	2019 SHS M
ASSETS			
CASH AND BALANCES WITH BANK OF UGANDA	14	114,502	120,203
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	15	28,277	16,374
DEPOSITS DUE FROM GROUP COMPANIES	32 (B)	21,655	31,573
GOVERNMENT SECURITIES	16	263,134	170,423
LOANS AND ADVANCES TO CUSTOMERS	17 (A)	397,996	397,152
OTHER ASSETS	18	8,999	17,197
PROPERTY AND EQUIPMENT	19	24,903	29,666
INTANGIBLE ASSETS	21	4,397	4,175
DEFERRED INCOME TAX ASSET	26	16,956	16,307
TOTAL ASSETS		**880,819**	**803,070**
LIABILITIES			
CUSTOMER DEPOSITS	22	617,559	578,563
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	23	32,053	6,581
AMOUNTS DUE TO GROUP COMPANIES	32 (C)	55,946	57,575
OTHER BORROWINGS	24	460	608
INCOME TAX PAYABLE	13 (B)	2,310	1,469
OTHER LIABILITIES	25	35,594	34,751
TOTAL LIABILITIES		**743,922**	**679,547**
EQUITY			
SHARE CAPITAL	27	46,775	46,775
SHARE PREMIUM	27	23,614	23,614
PROPOSED DIVIDENDS	31	15,903	9,121
STATUTORY CREDIT RISK RESERVE	17 (C)	2,926	1,834
RETAINED EARNINGS		47,679	42,179
TOTAL EQUITY		**136,897**	**123,523**
TOTAL EQUITY AND LIABILITIES		**880,819**	**803,070**

The financial statements on pages 18 to 74 were approved for issue by the Board of Directors on 5 March 2021 and signed on its behalf by:

Chairman Director

Chairman Director

Statement of Changes in Equity

	NOTES	SHARE CAPITAL SHS M	SHARE PREMIUM SHS M	STATUTORY CREDIT RISK RESERVE SHS M	PROPOSED DIVIDENDS SHS M	RETAINED EARNINGS SHS M	TOTAL SHS M
YEAR ENDED 31 DECEMBER 2019							
AT 1 JANUARY 2019		46,775	23,614		8,483	32,980	111,852
COMPREHENSIVE INCOME:							
PROFIT FOR THE YEAR						20,154	20,154
STATUTORY CREDIT RISK RESERVE				1,834		(1,834)	
OTHER COMPREHENSIVE INCOME							
TOTAL COMPREHENSIVE INCOME				**1,834**		**18,320**	**20,154**
TRANSACTIONS WITH OWNERS:							
PROPOSED DIVIDENDS					9,121	(9,121)	
DIVIDENDS PAID					(8,483)		(8,483)
AT 31 DECEMBER 2019	**27**	**46,775**	**23,614**	**1,834**	**9,121**	**42,179**	**123,523**
YEAR ENDED 31 DECEMBER 2020							
OPENING AT 1 JANUARY 2020	**27**	**46,775**	**23,614**	**1,834**	**9,121**	**42,179**	**123,523**
COMPREHENSIVE INCOME							
PROFIT FOR THE YEAR						13,374	13,374
OTHER COMPREHENSIVE INCOME							
TOTAL COMPREHENSIVE INCOME						**13,374**	**13,374**
TRANSACTIONS WITH OWNERS:							
STATUTORY CREDIT RISK RESERVE				1,092		(1,092)	
PROPOSED DIVIDENDS	31				6,782	(6,782)	
DIVIDENDS PAID							
AT 31 DECEMBER 2020	**27**	**46,775**	**23,614**	**4,081**	**15,903**	**46,524**	**136,897**

The notes set out on pages 22 to 74 form an integral part of these financial statements.

Statement of Cash Flows

	NOTES	2020 SHS M	2019 SHS M
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		77,163	74,498
INTEREST PAYMENTS		(12,589)	(11,505
FINANCE COSTS ON LEASES		(1,079)	(1,317)
NET FEE AND COMMISSION RECEIPTS		15,286	20,330
OTHER INCOME RECEIVED		14,730	14,420
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		840	4,039
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(57,414)	(68,854)
INCOME TAX PAID	13 (B)	(3,719)	(4,014)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**33,218**	**27,597**
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(12,350)	(58,245)
- CASH RESERVE REQUIREMENT		(3,250)	1,067
- OTHER ASSETS		8,198	(9,062)
- CUSTOMER DEPOSITS		37,469	9,226
- DEPOSITS DUE TO OTHER BANKS		25,472	(32,854)
- AMOUNTS DUE TO GROUP COMPANIES		(1,590)	(883)
- OTHER LIABILITIES		5,572	27,368
- GOVERNMENT SECURITIES		(92,711)	5,230
NET CASH GENERATED/ (UTILIZED) FROM OPERATING ACTIVITIES		**28**	**(30,556)**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT		(1,738)	(8,098)
PURCHASE OF INTANGIBLE ASSETS	21	(1,574)	(653)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		25	
NET CASH UTILIZED IN INVESTING ACTIVITIES		**(3,287)**	**(8,751)**
CASH FLOWS FROM FINANCING ACTIVITIES			
DIVIDENDS PAID			(8,483)
PAYMENT OF LEASE LIABILITIES		(3,570)	(2,659)
REPAYMENT OF BORROWED FUNDS		(137)	(280)
NET CASH UTILIZED IN FINANCING ACTIVITIES		**(3,707)**	**(11,422)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(6,775)**	**(49,869)**
EFFECT OF EXCHANGE RATE FLUCTUATIONS		(191)	(860)
CASH AND CASH EQUIVALENTS AT START OF YEAR		146,145	196,874
CASH AND CASH EQUIVALENTS AT END OF YEAR	**29**	**139,179**	**146,145**

The notes set out on pages 22 to 74 form an integral part of these financial statements.

Notes

1. Reporting entity

BANK OF AFRICA – UGANDA Ltd. (''the Bank'') is incorporated in Uganda under the Companies Act of Uganda as a limited liability company, and is domiciled in Uganda. The address of its registered office is:

BANK OF AFRICA – UGANDA Ltd.

Plot 45, Jinja road

P. O. Box 2750

Kampala, Uganda

The Bank is a licensed financial institution under the Financial Institutions Act and is a member of the Uganda Bankers' Association. The Bank is engaged in the business of commercial banking and the provision of related banking services.

2. Principal accounting policies

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), Companies Act of Uganda and Financial Institutions Act (FIA).

2.2 Statement of Compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of Uganda and Financial Institutions Act, 2004 (as amended in 2016). The Bank presents its Statement of Financial Position broadly in order of liquidity. Changes to significant accounting policies are described in Note 2.5.

2.3 Functional and presentation currency

These financial statements are presented in Uganda Shillings (Shs) which is the Bank's functional currency, rounded to the nearest million (M), except when otherwise indicated. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

2.4 Use of judgments and estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making the judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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.

The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Deferred income tax asset (Note 26)

The Bank recognised a deferred tax asset of Shs 16,956 million (2019: Shs 16,307 million) in respect of accumulated tax losses based on management's projections that sufficient taxable profits will be generated in future years against which the deferred tax asset will be utilised. The deferred tax has been maintained in the balance sheet with an assumption that the bank will remain profitable in future years based on the projected increase in revenue at a faster rate than the increase in costs.

b) Classification of financial instruments (Note 3e)

Financial assets are classified based on the business model within which the assets are held and based on whether the contractual terms of the financial assets are specifically for payment of principal and interest (SPPI) on the principal amount outstanding.

c) Impairment losses on financial instruments (Note 3a)

Determination of inputs into the Expected Credit Losses (ECL) measurement model, incorporation of forward-looking information, establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, selection of approval of the models used to measure ECL and assumptions used in estimating recoverable cash flows. These have been further illustrated under Note 3.

d) Fair value of financial instruments (Note 16b)

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. 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 practicable, 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 the reported fair value of financial instruments.

e) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

• Accounting as a lease

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus an initial direct cost incurred and an estimate of costs to dismantle and remove any improvement made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. Generally, the Bank uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method.

• Accounting for as Lessor

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

2.5 Adoption of new and revised standards

i) New and amended standards adopted by the Bank

The following standards have been adopted by the Bank for the first time for the financial year beginning on or after 1 January 2020. The adoption of these new standards has not resulted in material changes to the banks accounting policies.

New amendments or interpretation effective for annual periods beginning on or after 1 January 2020 are summarized below:

NEW AMENDMENTS OR INTERPRETATION	EFFECTIVE DATE
• AMENDMENTS TO REFERENCES TO CONCEPTUAL FRAMEWORK IN IFRS STANDARDS	1 JANUARY 2020
• DEFINITION OF A BUSINESS (AMENDMENTS TO IFRS3)	
• DEFINITION OF MATERIAL (AMENDMENTS TO IAS 1 AND IAS 8)	
• IFRS 17 INSURANCE CONTRACTS AND AMENDMENTS TO IFRS 17 INSURANCE CONTRACTS	
• EXTENSION OF THE TEMPORARY EXEMPTION FROM APPLYING IFRS9 (AMENDMENTS TO IFRS4)	

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020

At the date of authorization of financial statements of the Bank for the year ended 31 December 2020, the following Standard and Interpretations were in issue but not yet effective;

NEW STANDARD OR AMENDMENTS	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
• IAS 37 AMENDMENTS REGARDING ONEROUS CONTRACTS	1 JANUARY 2022
• IAS 16 AMENDMENTS REGARDING PROCEEDS BEFORE INTENDED USE	1 JANUARY 2022

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

The new standard did not have significant impacts on the financial statements of the Bank.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. The amendment did is not have a significant impact on the financial statements of the Bank.

2.6 Summary of significant accounting policies

a) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The financial statements are presented in Uganda Shillings ("Shs") which is the Bank's functional and presentation currency, rounded off to the nearest million.

(ii) 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 of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

b) Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets and liabilities. The Bank either required to or elect to measure a number of their financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

i. Classification and measurement

Under IFRS 9 financial instruments are classified based on the business model. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

ii. Expected credit loss on financial assets

ECL are a probability-weighted estimate of credit losses measure as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive). Generally, the Bank measures loss allowances at an amount equal to lifetime ECL (that resulting from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure.). 12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'.

Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Stage 2 financial instruments have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

At each reporting date, the Group assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

ECLs are recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model.

The ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses. Forward-looking macroeconomic factors such as unemployment rates, inflation rates, interest rates, exchange rates, domestic borrowing, credit to private sector and gross domestic product are incorporated into the risk parameters. Estimating forward-looking information requires significant judgment and consistency with the forward-looking information used by the Bank for other purposes, such as forecasting and budgeting.

The same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The financial instruments scoped for the expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVOCI, and off-balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively.

iii. Hedge Accounting

IFRS 9 introduced a new general hedge accounting model that better aligns hedge accounting with risk management activities. However, the current hedge accounting requirements under IAS 39 will continue to be applied until the IASB finalizes its macro hedge accounting project. The IFRS 9 Hedge accounting requirements did not have any significant impact on the bank as the bank does not apply hedge accounting.

iv. Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off are still subject to enforcement activities in order to comply with The Bank's procedures for recovery of amounts due.

c) Effective Interest Rate

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IFRS 15 include: fees charged for servicing a loan; commitment fees to originate a loan and it is unlikely that a specific lending arrangement will be entered into; and loan syndication fees received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

d) Derivative financial instruments

Derivative financial instruments comprise forward foreign exchange contracts that are not designated as hedging instruments. The Bank agrees to buy or sell a specific quantity of foreign currency, usually on a specific future date at an agreed rate. Derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

e) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' respectively in the statement of comprehensive income 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. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

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.

f) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised over the life of the loan. Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place. Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

g) 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 re-pledge 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 customers or placements with other banks, 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.

h) Offsetting financial instruments

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.

(i) Property and equipment

Land and buildings comprise mainly of 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.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to 'operating expenses' during the period in which they are incurred.

The Bank has prescribed a depreciation policy and accounting estimate guideline for all property plant and equipment (PPE) including intangible assets. It has however been noted that, computer hardware which encompasses assets such as servers, laptops, ATMs and desktop computers are in a practical sense being utilized for more than 3 years as opposed to the useful life above which would therefore imply that a more appropriate estimate be prescribed. Similarly, motor vehicles whose useful life is currently 4 years, are practically being used for. Effective January 2019 the Bank made changes in the estimated useful life of motor vehicles and Computer equipment.

Buildings	Shorter of period of lease or 50 years
Motor vehicles	5 years (previously 4 years)
Fixtures, fittings and equipment	8 years
Other Computer Equipment	5 years (previously 3 years)
Laptops and Personal Computers	4 years (previously 3 years)

The change above reduces the depreciation expense while increasing the net book value

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

The Bank assesses at each balance sheet 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 are determined by comparing proceeds with the carrying amount. These are included in "other income" in the statement of comprehensive income.

j) 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. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

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).

k) Income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in the Statement of comprehensive income 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. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from 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 nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax liability is settled or the related deferred income tax asset is realised.

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

l) 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 non-restricted balances with the Central Bank, treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank.

m) Employee benefits

i) Retirement benefit obligations:

The Bank operates a defined contribution retirement benefit scheme for all its permanent confirmed employees. The Bank and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity.

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 all schemes are held in separate trustee administered funds, which are funded by contributions from both the Bank and the employees.

The Bank's contributions to the defined contribution schemes are charged to the statement of comprehensive income in the year in which they fall due.

ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the statement of financial position date is recognised as an expense.

n) Customer deposits

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

o) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

p) Share capital

Ordinary shares are classified as 'share capital' in equity and measured at the fair value of consideration receivable without subsequent re-measurement. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

q) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

r) Acceptances and letters of credit

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

s) 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.

3. 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 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. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. These policies are 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. In addition, internal audit is responsible for the independent review of risk management and the control environment.

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. Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from credit portfolio performance measures, and includes the use of various credit risk rating systems to measure the credit risk of loans and advances to customers and banks at a counterparty level.

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 and reports regularly to the Board of Directors through the Board Credit Committee.

i) Credit risk measurement

The estimation of credit risk 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.

Expected Credit Loss (ECL)

The Expected Credit Loss is measured on either a 12 month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.

  A financial instrument is in default if the borrower is more than 90 days past due on its contractual payments. Additionally, if the borrower meets unlikeliness to pay criteria which indicates the borrower is in significant financial difficulty.
- To enhance accuracy in establishing the probability of default, asset categories are classified into separate customer segments: Corporate, SME and Retail. These segments are further categorised according to the economic sector in which the underlying assets relates.
- A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments together with other qualitative factors.
- EAD is based on the amounts the Bank expects to be owed at the time of default over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD, and EAD for the future for the different customer segments. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12 month and lifetime EADs are determined based on the expected payment profile which varies by customer type.

Forward looking economic information is also included in determining the 12 month and Lifetime PD, EAD, and LGD. Regression and correlation analyses are carried out to establish the relationship of credit risk to some key economic fundamentals.

The assumptions underlying the ECL calculation; such as how the maturity profile of the PDs and how collateral values changes etc., are monitored and reviewed regularly.

Computation of Expected Credit Losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument. The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD). The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 – If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit loss is recorded.
- Stage 2 – When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Central Bank of Uganda and the Bank's policy on curing of loans.
- Stage 3 – When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net carrying amount of the financial assets in Stage 3.

Assessment of Significant Increase in Credit Risk

The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instrument's credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to Stage 2. Additionally, other determinants include: relative increase in absolute level of credit risk (PD), operating performance of borrower, breaches to covenants, changes to contractual terms e.g. granting concessions such as interest waivers and cash flow or liquidity issues.

Definition of Default and Credit Impaired Assets

The Bank defines a financial instrument as in default or credit impairment when it meets one or more of the following Criteria:

Quantitative – The Borrower is more than 90 days past due on its contractual payments; and

Qualitative – The Borrower meets the unlikeliness to pay criteria which indicates that the borrower is in significant financial difficulty. These instances include: The borrower is in long-term forbearance, the borrower is deceased, the borrower is insolvent, the borrower is in breach of financial covenants, an active market for that financial asset has disappeared because of financial difficulties, concessions have been made by the lender relating to borrower's financial difficulty, it is becoming probable that the borrower will enter bankruptcy and financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring credit risks. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

For regulatory purposes however, and for internal monitoring of the quality of the loan portfolio, customers are segmented into five rating classes as shown on the Bank's internal ratings scale below:

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

Forward looking information (FLI)

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has been increased significantly since its initial recognition and the measurement of ECL. The Bank has identified and documented the key drivers of credit risk, using an analysis of historical data, has estimated relationships between macro-economic variables and Credit risk. The Bank defines three possible economic scenarios: a base case, which is the likely scenario, established internally based on reliable referenced forecasts (usually the International Monetary Fund – IMF, Bank of Uganda – BOU and the Uganda Bureau of Statistics – UBOS, and two less likely scenarios, one upside (Best case) and one downside (Worst case) scenario.

The more likely scenario is also aligned with data applied for the Bank's strategic planning and budgeting process.

SCENARIOS	2020	2019
BEST	20.00%	33.33%
BASE	50.00%	33.33%
WORST	30.00%	33.33%

From a pool of macro-economic factors, the Bank assesses the impact and relationship of each of these factors to credit risk and credit losses in keeping with expected economic fundamentals over 10-year historical period.

The strength or degree of relationship between the variable and credit risk is categorized as weak, moderate or strong based on the resulting correlation coefficient criteria as follows:

- Strong (> 0.8)
- Moderate (> 0.5)
- Weak (<= 0.5)

From this assessment, the Bank found and focused on the relationship with three macro-economic variables, GDP, Consumer Price Indices (CPI) & Trade deficit.

The illustration shows the economic projections adopted in the model.

	2019	2020	2021	2022	2023	2024	2025
GDP (%)	8.41	(0.05)	3.50	5.50	6.04	7.58	9.29
CPI CORE (BASE: 09/10 = 100)	174.77	185.23	193.48	208.93	217.61	226.94	237.51
TRADE DEFICIT (US$ MILLIONS)	(239.24)	(324.74)	(368.86)	(362.40)	(401.66)	(387.27)	(314.10)

The downside and upside scenarios have adopted the worst and best economic indicators respectively, that the country has experienced in the last ten years.

A multiple regression analysis to derive the parameter/ credit risk relationship (formula) is derived for variables to show a moderate to strong relation between the variables and the banking sector's credit risk. On this basis, the 3 distinct resultant scenarios, a base case (derived from forecasted macro-economic data), worst and best case are determined, an average combination of which informs the futuristic impact on credit risk parameters.

The Bank performs back-testing of resultant economic overlays to establish a continuous recalibration of the economic forecasts model. In 2019, the overall 12M probability of default was 2.4% with an economic overlay of 105% implying a 2.5% PD adjusted for FLI. Currently, the Bank's 12M PD is 4.6% with an overlay of 107% picking up from prior year's 105% and resulting into an adjusted PD of 4.9% to incorporate FLI. The increase in the overlay is expected in view of a challenged economic environment. Overall PD has however significantly increased in the current year due to heightened credit risk especially seen in specific economic sectors of hotels & restaurants, education, real estate, and transport.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. Determination of whether the assets credit risk has significantly increased is established by comparison of: (a) its remaining lifetime PD at reporting date based on modified terms with; (b) the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms. On the other hand, the original financial asset is derecognised if the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to have expired.

Central bank credit loss provisions

In addition to the measurement of impairment losses on loans and advances in accordance with the IFRS as set out above, the Bank is also required by the Financial Institutions Act (FIA) 2004 to establish minimum provisions for losses on loans and advances as follows:

a) A specific provision for loans classified as non-performing based the worst of an objective and subjective criteria as prescribed by the credit classification regulations. The objective criteria is illustrated below:

— Substandard assets being facilities in arrears between 90 and 179 days – 20%.
— Doubtful assets being facilities in arrears between 180 days and 364 days – 50%.
— Loss assets being facilities in arrears between over 364 days – 100%.

b) A general provision of at least 1% of their total outstanding credit facilities net of specific provisions.

To account for a variation between IFRS and Central Bank Loan loss impairment provisions, the Bank books the difference as an appropriation of retained earnings to a statutory credit risk reserve in the Statement of changes in Equity (when Central Bank > IFRS) and none (when Central Bank < IFRS).

(ii) Risk limit 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, industry sector and by country are reviewed quarterly by the Board of Directors.

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 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:

a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral 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 communal and/or business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as fixed deposits, debt securities and equities.

The Bank secures all borrowings with acceptable collateral, except in limited cases where credit is offered on an unsecured basis.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

b) 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 Bank 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.

c) Covid-19 Pandemic

Significant increase in credit risk

In addition to the qualitative factors already identified under credit risk measurement, the Bank enhanced its assessment by considering the following factors as rebuttable presumptions of credit risk having significantly increased:

- Customers in adversely impacted economic sectors of hotels and restaurants, education, transport and real estate.
- Increase in the customer's debt burden ratio established through a pre and post covid cashflow comparative trend analysis.
- Customers restructuring more than once in relation to the pandemic challenges.

Repayment holidays

In response to the Covid-19 pandemic, the Bank introduced repayment holidays to enable customers to take a temporary break from making loan repayments where they are experiencing, or are reasonably expected to experience, payment difficulties on account of Covid-19. During the period of the repayment holiday, no further arrears are reported on customers' records although interest on the deferred payments continues to accrue.

At 31 December 2020 the restructured loans with repayment holidays granted in 2020 are analysed below:

	RESTRUCTURED SHS M	COLLATERAL SHS M
STAGE 1	26,974	40,943
STAGE 2	119,373	267,809
STAGE 3	22,055	30,991
COVID-19 REPAYMENT HOLIDAY LOANS	**168,402**	**339,743**

Modification loss on Repayment holiday loans

The Bank assessed at a portfolio level, whether the cashflows from the original loan and the modified (restructured) loan were substantially different using the 10% test. On this assessment, the Bank established a difference of Shs 2,368M between the original and modified discounted cashflows which the Bank deemed significant and thus considered the cashflows from the original loans as having expired. Resultantly, a modification loss to the same extent was immediately recognised in the income statement.

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

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

	2020 SHS M	2019 SHS M
BALANCES WITH THE CENTRAL BANK (NOTE 14)	61,374	71,425
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS (NOTE 15)	28,277	16,374
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 32 (B))	21,655	31,573
LOANS AND ADVANCES TO CUSTOMERS (NOTE 17)	397,996	397,152
GOVERNMENT SECURITIES (NOTE 16)	263,134	170,423
OTHER ASSETS (NOTE 18)	8,999	17,198
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS (NOTE 33):		
– TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	23,211	30,820
– PERFORMANCE BONDS AND STANDBYS	153,751	153,660
– COMMITMENTS TO LEND	20,888	17,891
TOTAL EXPOSURE	**979,285**	**906,516**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2020, 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 carrying amounts as reported in the balance sheet.

As shown above, 41% of the total maximum exposure is derived from loans and advances to banks and customers (2019: 44%); 23% represents investments in debt securities (2019: 19%).

Loans and advances to customers, other than to companies or salaried individuals borrowing less than Shs 150 million and some structured SME products, are secured by collateral in the form of charges over land and buildings and/or plant and machinery and other assets, corporate and personal guarantees or assignment of contract proceeds.

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

- the Bank exercises stringent controls over the granting of new loans
- 98% of the loans and advances portfolio are neither past due nor impaired
- 99% of the loans and advances portfolio are not impaired; and
- 85% of the loans and advances portfolio are backed by collateral.

iv) Credit quality analysis

	2020 SHS M	2019 SHS M
LOANS AND ADVANCES		
NEITHER PAST DUE NOR IMPAIRED	363,393	342,186
PAST DUE BUT NOT IMPAIRED	23,179	56,408
CREDIT IMPAIRED	25,984	8,490
GROSS	412,556	407,084
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 17 (B)	(14,560)	(9,932)
NET AMOUNT	**397,996**	**397,152**

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:

	2020 SHS M	2019 SHS M
STANDARD	380,875	342,186

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are generally 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 after taking into account costs of realising security and the effect of discounting. The following table sets out the overdue status of loans and advances to customers in Stages 1, 2 and 3:

	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	TOTAL SHS M
2020				
LOANS AND ADVANCES				
STANDARD AND CURRENT	235,293	128,100	17,483	380,876
PAST DUE UP TO 30 DAYS	15,810	5,149	2,395	23,354
PAST DUE 31 – 60 DAYS		1,652	1,251	2,903
PAST DUE 61 – 90 DAYS		568	532	1,100
PAST DUE OVER 90 DAYS			4,324	4,324
	251,103	**135,469**	**25,985**	**412,557**
LOSS ALLOWANCE	(1,819)	(3,292)	(9,450)	(14,561)
CARRYING AMOUNT	**249,284**	**132,177**	**16,535**	**397,996**
2019				
LOANS AND ADVANCES				
STANDARD AND CURRENT	342,186			342,186
PAST DUE UP TO 30 DAYS	49,990		202	50,192
PAST DUE 31 – 60 DAYS		5,117		5,117
PAST DUE 61 – 90 DAYS	16	1,284		1,300
PAST DUE OVER 90 DAYS	1		8,288	8,289
	392,193	**6,401**	**8,490**	**407,084**
LOSS ALLOWANCE	(3,981)	(923)	(5,028)	(9,932)
CARRYING AMOUNT	**388,212**	**5,478**	**3,462**	**397,152**

Individually impaired:

Of the total gross amount of past due loans and advances, following amounts have been individually assessed as impaired:

	2020 SHS M	2019 SHS M
CORPORATE	571	3
SME	20,115	6,564
RETAIL	5,298	1,923
	25,984	**8,490**
FAIR VALUE OF COLLATERAL HELD	32,339	6,128

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 judgement 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 totalled Shs 168,402 million (2019: Shs 8,797 million).

Repossessed collateral

During 2020, the Bank did not re-possess any collateral held as security. The Bank's policy is to dispose of repossessed properties as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

Credit quality analysis of other financial assets

The following table sets out the information the credit quality of other financial assets measured at amortised cost.

	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	TOTAL SHS M
31 DECEMBER 2020				
OFF BALANCE SHEET ITEMS				
TRADE RELATED CREDITS	12,768	983		13,751
PERFORMANCE BONDS	138,277	15,474		
DOCUMENTARY REMITTANCES	9,461			9,461
COMMITMENTS TO LEND	20,528	359		20,887
	181,034	**16,817**		**197,851**
LOSS ALLOWANCE	(489)	(224)		(713)
CARRYING AMOUNT	**180,545**	**16,593**		**197,138**
31 DECEMBER 2019				
OFF BALANCE SHEET ITEMS				
TRADE RELATED CREDITS	16,402	356		16,758
PERFORMANCE BONDS	139,534	13,770	356	153,660
DOCUMENTARY REMITTANCES	14,062			14,062
COMMITMENTS TO LEND	17,877	14		17,891
	187,875	**14,140**	**356**	**202,371**
LOSS ALLOWANCE	(118)	(40)	(9)	(167)
CARRYING AMOUNT	**187,757**	**14,100**	**347**	**202,204**

	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	TOTAL SHS M
31 DECEMBER 2020				
GOVERNMENT SECURITIES				
TREASURY BILLS	148,339			148,339
TREASURY BONDS	115,058			115,058
	263,397			263,397
LOSS ALLOWANCE	(263)			(263)
CARRYING AMOUNT	**263,134**			**263,134**
31 DECEMBER 2019				
GOVERNMENT SECURITIES				
TREASURY BILLS	138,384			138,384
TREASURY BONDS	32,210			32,210
	170,594			**170,594**
LOSS ALLOWANCE	(171)			(171)
CARRYING AMOUNT	**170,423**			**170,423**

	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	2020 SHS M	2019 SHS M
BALANCES DUE FROM BANKS					
CENTRAL BANK	61,417			61,417	71,479
OTHER BANKING INSTITUTIONS	28,269			28,269	16,557
GROUP COMPANIES	21,655			21,655	31,573
	111,341			**111,341**	**119,609**
LOSS ALLOWANCE	(111)			(111)	(119)
CARRYING AMOUNT	**111,230**			**111,230**	**119,490**

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 Central Bank of Uganda requires that the Bank maintains a minimum cash reserve requirement. 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.

Sources of liquidity are regularly reviewed by a separate team in the Treasury department to maintain a wide diversification by provider, product and term.

The table below presents the cashflows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date and from financial assets by expected maturity dates.

AT 31 DECEMBER 2020	CARRYING AMOUNT SHS M	NOMINAL INFLOW/ OUTFLOW SHS M	UP TO 1 MONTH SHS M	1-3 MONTHS SHS M	3-12 MONTHS SHS M	1-5 YEARS SHS M	OVER 5 YEARS SHS M
LIABILITIES							
CUSTOMER DEPOSITS	617,559	617,559	66,040	118,138	433,381		
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	32,053	32,053	32,053				
AMOUNTS DUE TO GROUP COMPANIES	55,946	55,946	2,329		53,617		
OTHER BORROWED FUNDS	460	460	190			270	
CURRENT INCOME TAX LIABILITY	2,310	2,310			2,310		
LEASE LIABILITIES	9,673	9,673			118	9,555	
OTHER LIABILITIES	25,921	25,921	25,921				
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	**743,922**	**743,922**	**126,533**	**118,138**	**489,426**	**9,825**	
ASSETS							
CASH AND BANK BALANCES WITH CENTRAL BANK	114,502	114,502	114,502				
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	28,277	28,277	28,277				
AMOUNTS DUE FROM GROUP COMPANIES	21,655	21,655	6,753		14,902		
LOANS AND ADVANCES TO CUSTOMERS	397,996	397,996	97,857	42,454	46,502	168,010	43,173
GOVERNMENT SECURITIES	263,134	263,134	75,636	21,588	110,257	55,653	
PROPERTY AND EQUIPMENT	24,903	24,903		17	121	14,269	10,496
INTANGIBLE ASSETS	4,397	4,397			320	2,832	1,245
DEFERRED INCOME TAX ASSET	16,956	16,956					16,956
OTHER ASSETS	8,999	8,999	8,996	3			
TOTAL ASSETS (EXPECTED MATURITY DATES)	**880,819**	**880,819**	**332,021**	**64,062**	**172,102**	**240,764**	**71,870**
ON-BALANCE SHEET MISMATCH	**136,897**	**136,897**	**192,866**	**(54,076)**	**(314,896)**	**240,494**	**72,509**
NET OFF-BALANCE SHEET MISMATCH	(169,875)	(169,875)	(33,381)	(36,418)	(62,705)	(37,371)	
NET LIQUIDITY POSITION	**306,772**	**306,772**	**172,107**	**(90,494)**	**(380,029)**	**193,568**	**71,870**

AT 31 DECEMBER 2019	CARRYING AMOUNT SHS M	NOMINAL INFLOW/ OUTFLOW SHS M	UP TO 1 MONTH SHS M	1-3 MONTHS SHS M	3-12 MONTHS SHS M	1-5 YEARS SHS M	OVER 5 YEARS SHS M
LIABILITIES							
CUSTOMER DEPOSITS	578,563	578,563	67,480	107,286	403,797		
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	6,581	6,581	6,581				
AMOUNTS DUE TO GROUP COMPANIES	57,575	57,575	17,726		39,849		
OTHER BORROWED FUNDS	608	608	190			418	
CURRENT INCOME TAX LIABILITY	1,469	1,469			1,469		
OTHER LIABILITIES	34,751	34,751	34,751				
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	**679,547**	**679,547**	**126,727**	**107,286**	**445,116**	**418**	
ASSETS							
CASH AND BANK BALANCES WITH CENTRAL BANK	120,203	120,257	120,203				
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	16,374	16,407	16,374				
AMOUNTS DUE FROM GROUP COMPANIES	31,573	31,605	31,573				
LOANS AND ADVANCES TO CUSTOMERS	397,152	407,084	80,925	50,362	56,330	159,793	49,742
GOVERNMENT SECURITIES	170,423	170,423	5,130	32,964	100,100	32,229	
PROPERTY AND EQUIPMENT	29,666	29,666		10	67	3,210	26,379
INTANGIBLE ASSETS	4,175	4,175		8	112	3,783	272
DEFERRED INCOME TAX ASSET	16,307	16,307					16,307
OTHER ASSETS	17,197	17,197	13,629	3,568			
TOTAL ASSETS (EXPECTED MATURITY DATES)	**803,070**	**813,261**	**267,834**	**86,912**	**156,609**	**199,015**	**92,700**
ON-BALANCE SHEET MISMATCH	**123,523**	**133,714**	**141,107**	**(20,374)**	**(288,507)**	**198,597**	**92,700**
NET OFF-BALANCE SHEET MISMATCH	(202,203)	(202,370)	(29,350)	(40,424)	(61,978)	(35,215)	
NET LIQUIDITY POSITION	**(78,680)**	**(68,656)**	**111,757**	**(60,798)**	**(350,485)**	**163,382**	**92,700**

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 cashflows of a financial instrument. Market risk arises from open positions in interest rates, foreign currencies and equity products, all 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 the ALCO) and for the day to day implementation of those policies.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cashflows. 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 table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2020 and 2019. Included in the table are the Bank's financial instruments, categorised by foreign currency.

	USD SHS M	GBP SHS M	EURO SHS M	OTHER SHS M	TOTAL SHS M
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	21,761	5,360	10,879	73	38,073
BALANCES DUE FROM BANKING INSTITUTIONS	18,627	2,953	6,385	304	28,269
AMOUNTS DUE FROM GROUP COMPANIES	15,701	94	5,832	28	21,655
LOANS AND ADVANCES	198,415		169		198,584
OTHER FINANCIAL ASSETS	18				18
TOTAL ASSETS	**254,522**	**8,407**	**23,265**	**405**	**286,599**
LIABILITIES					
CUSTOMER DEPOSITS	172,581	1,480	16,100	87	190,248
BALANCES DUE TO BANKING INSTITUTIONS	26,285	5,491			31,776
AMOUNTS DUE TO GROUP COMPANIES	55,419	1	448	3	55,871
OTHER LIABILITIES	1,730	5	3,794		5,529
OTHER FINANCIAL LIABILITIES			251		251
TOTAL LIABILITIES	**256,015**	**6,977**	**20,593**	**90**	**283,675**
NET ON-BALANCE SHEET POSITION	**(1,493)**	**1,430**	**2,672**	**315**	**2,924**
NET OFF-BALANCE SHEET POSITION	**(53,287)**		**(5,542)**	**(2,682)**	**(61,511)**
OVERALL OPEN POSITION	**(54,780)**	**1,430**	**(2,870)**	**(2,367)**	**(58,587)**
AT 31 DECEMBER 2019	**(73,425)**	**3,777**	**(17,177)**	**(2,433)**	**(89,258)**

At 31 December 2020, if the functional currency had reasonably strengthened/ weakened by a reasonable change of 1% against the foreign currencies with all other variables held constant, the pre-tax profit for the year would have been Shs 88 million (2019: Shs 53 million) higher/ lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities. Further analysis of this sensitivity has been illustrated below.

	2020 SHS M	2019 SHS M
EFFECT ON PROFIT BEFORE TAX PER CURRENCY (+/-)		
USD	76	36
GBP	(1)	1
EUR	15	9
OTHERS	(2)	6

Interest rate risk

The Bank has exposure to the effects of fluctuations in market interest rates which impacts both its fair value and cashflow 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 re-pricing that may be undertaken, which is monitored monthly. The bank is managing interest rate risk by gap analysis.

Gap Analysis

Under this, interest sensitive assets and liabilities are classified into various time bands according to their maturity in the case of fixed interest rates, and residual maturity towards next pricing date in the case of floating exchange rates. The size of the gap in a given time band is analysed to study the interest rate exposure and the possible effects on the Bank's earnings.

In order to evaluate the earnings exposure, interest Rate Sensitive Assets (RSA) in each time band are netted off against the interest Rate Sensitive Liabilities (RSL) to produce a re-pricing gap for that time band. A positive gap indicates that the Bank has more RSA and RSL, a positive of asset sensitive gap means that an increase in market interest rates could cause an increase in the net interest margin and vice versa. Conversely, a negative or liability sensitive gap implies that the Bank's net interest margin could decline as a result of increase in market rates and vice versa.

At 31 December 2020, if the interest rates on interest bearing assets and liabilities had been 100 basis points higher/ lower with all other variables held constant, the pre-tax loss for the year would have been Shs 2,668 million (2019: Shs 2,425 million) higher/ lower.

The table below summarises the Bank's exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

AT 31 DECEMBER 2020	UP TO 1 MONTH SHS M	1-3 MONTHS SHS M	3-12 MONTHS SHS M	OVER 1 YEAR SHS M	NON-INTEREST BEARING SHS M	TOTAL SHS M
ASSETS						
CASH AND BANK BALANCES WITH CENTRAL BANK					114,502	114,502
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS					28,277	28,277
AMOUNTS DUE FROM GROUP COMPANIES			14,902		6,753	21,655
DERIVATIVE ASSETS						
LOANS AND ADVANCES TO CUSTOMERS	97,857	42,454	46,502	211,183		397,996
GOVERNMENT SECURITIES	75,636	21,588	110,257	55,653		263,134
PROPERTY AND EQUIPMENT					24,903	24,903
INTANGIBLE ASSETS					4,397	4,397
DEFERRED INCOME TAX ASSETS					16,956	16,956
OTHER ASSETS					8,999	8,999
TOTAL ASSETS	**173,493**	**64,042**	**171,661**	**266,836**	**204,787**	**880,819**
LIABILITIES						
CUSTOMER DEPOSITS	58,652	84,966	131,458	143,438	199,045	617,559
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	5,491				26,562	32,053
AMOUNTS DUE TO GROUP COMPANIES			53,617		2,329	55,946
OTHER BORROWED FUNDS				270	190	460
CURRENT INCOME TAX LIABILITY					2,310	2,310
OTHER LIABILITIES					35,594	35,594
TOTAL LIABILITIES	**64,143**	**84,966**	**185,075**	**143,708**	**266,030**	**743,922**
INTEREST RE-PRICING GAP	**109,350**	**(20,924)**	**(13,414)**	**123,128**	**(61,243)**	
RE-PRICING GAP AT 31 DECEMBER 2019	**68,416**	**14,131**	**27,885**	**135,678**	**(118,987)**	

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.

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.

d) Fair values 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 re-pricing or maturity dates as set out above. Fair values are based on discounted cashflows using a discount rate based upon the borrowing rate that the directors expect would be available to the Bank at the statement of financial position 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). Sources of input parameters include LIBOR yield curve.
- 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.

The table below shows items measured at fair value and for which fair value is disclosed :

	LEVEL 1 SHS M	LEVEL 2 SHS M	LEVEL 3 SHS M	TOTAL SHS M
31 DECEMBER 2020				
FINANCIAL ASSETS				
DEPOSITS AND BALANCES DUE FROM OTHER BANKS		28,277		28,277
DEPOSITS DUE FROM GROUP COMPANIES		21,655		21,655
GOVERNMENT SECURITIES	40,942	222,192		263,134
LOANS AND ADVANCES TO CUSTOMERS		397,996		397,996
OTHER ASSETS		8,999		8,999
	40,942	**679,119**		**720,061**
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS		617,559		617,559
BALANCES DUE TO OTHER BANKING INSTITUTIONS		32,053		32,053
AMOUNTS DUE TO GROUP COMPANIES		55,946		55,946
OTHER BORROWINGS		460		460
CURRENT INCOME TAX LIABILITIES		2,310		2,310
OTHER LIABILITIES		35,594		35,594
		743,922		**743,922**
31 DECEMBER 2019				
FINANCIAL ASSETS				
DEPOSITS AND BALANCES DUE FROM OTHER BANKS		16,374		16,374
DEPOSITS DUE FROM GROUP COMPANIES		31,573		31,573
GOVERNMENT SECURITIES		170,423		170,423
LOANS AND ADVANCES TO CUSTOMERS		397,152		397,152
OTHER ASSETS		17,197		17,197
TOTAL ASSETS		**632,719**		**632,719**
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS		578,563		578,563
BALANCES DUE TO OTHER BANKING INSTITUTIONS		6,581		6,581
AMOUNTS DUE TO GROUP COMPANIES		57,575		57,575
OTHER BORROWINGS		608		608
CURRENT INCOME TAX LIABILITIES		1,469		1,469
OTHER LIABILITIES		34,751		34,751
TOTAL LIABILITIES		**679,547**		**679,547**

There were no financial instruments in level 3.

The unobservable valuation inputs used to assess financial assets and liabilities not fair valued but for which fair value is reported include risk-free rate, risk premiums, liquidity spreads, credit risk, timing of settlement, service costs and pre-payment.

e) Financial instruments by category

i. Classification of Financial assets and Financial liabilities

The following table provides a reconciliation between the line items in the statement of financial position and the categories of financial instruments:

	NOTE	DESIGNATED AS FVTPL SHS M	AMORTISED COST SHS M	TOTAL CARRYING AMOUNT SHS M
31 DECEMBER 2020				
FINANCIAL ASSETS				
CASH AND BALANCES WITH CENTRAL BANK	14		114,502	114,502
PLACEMENTS WITH OTHER BANKS	15		28,277	28,277
AMOUNTS DUE FROM GROUP COMPANIES	32 (B)		21,655	21,655
LOANS AND ADVANCES TO CUSTOMERS	17 (A)		397,996	397,996
INVESTMENT SECURITIES	16	40,942	222,192	263,134
OTHER ASSETS	18		8,999	8,999
TOTAL		**40,942**	**793,621**	**834,563**
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	22		617,559	617,559
DEPOSITS FROM OTHER BANKS	23		32,053	32,053
AMOUNTS DUE TO GROUP COMPANIES	32(C)		55,946	55,946
CURRENT INCOME TAX LIABILITIES	13(B)		2,310	2,310
OTHER LIABILITIES	25		35,594	35,594
OTHER BORROWED FUNDS	24		460	460
TOTAL			**743,922**	**743,922**
31 DECEMBER 2019				
FINANCIAL ASSETS				
CASH AND BALANCES WITH CENTRAL BANK	14		120,203	120,203
PLACEMENTS WITH OTHER BANKS	15		16,374	16,374
AMOUNTS DUE FROM GROUP COMPANIES	32 (A)		31,573	31,573
LOANS AND ADVANCES TO CUSTOMERS	17 (A)		397,152	397,152
INVESTMENT SECURITIES:				
– HELD TO MATURITY	16 (A)		170,423	170,423
OTHER ASSETS	18		17,197	17,197
TOTAL			**752,922**	**752,922**

	NOTE	DESIGNATED AS FVTPL SHS M	AMORTISED COST SHS M	TOTAL CARRYING AMOUNT SHS M
31 DECEMBER 2019				
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	22		578,563	578,563
DEPOSITS FROM OTHER BANKS	23		6,581	6,581
AMOUNTS DUE TO GROUP COMPANIES	32 (B)		57,575	57,575
CURRENT INCOME TAX LIABILITIES	13(B)		1,469	1,469
OTHER LIABILITIES	25		34,751	34,751
OTHER BORROWED FUNDS	24		608	608
TOTAL			**679,547**	**679,547**

f) Capital management

The Bank monitors the adequacy of its capital using ratios established by Bank of Uganda. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off balance sheet commitments and market risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt, equity securities. Assets are weighted according the amount of capital deemed necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied, for example cash and money market instruments have zero risk weighting which means that no capital is required to support the holding of these assets.

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

- to comply with the capital requirements set by the Central Bank;
- 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 Central Bank for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

The Central Bank requires each bank to:

a) hold the minimum level of capital unimpaired by losses of Shs 25 billion;

b) maintain a core capital ratio of not less than 10% of total risk adjusted assets plus risk adjusted off balance sheet items as determined by the Central Bank by statutory instrument;

c) maintain a total (core plus supplementary) capital ratio of not less than 12% of total risk adjusted assets plus risk adjusted off balance sheet items as determined by the Central Bank by statutory instrument.

The Bank's core capital (Tier 1 capital) is comprised of share capital, share premium, plus retained earnings less any deductions determined by the Central Bank.

The Bank's supplementary (Tier 2 capital) is comprised of revaluation reserves, unencumbered general provisions for losses, regulatory reserves, subordinated debt and hybrid debt.

The table that follows summarises the composition of regulatory capital and the ratios of the Bank determined in accordance with the Central Bank's regulatory returns form BS 100A and BS100B:

	2020 SHS M	2019 SHS M
CORE CAPITAL (TIER 1)		
SHARE CAPITAL	46,775	46,775
SHARE PREMIUM	23,614	23,614
RETAINED EARNINGS	46,524	42,179
LESS:		
UNREALISED FOREIGN EXCHANGE GAINS		(28)
INTANGIBLE ASSETS	(4,397)	(4,175)
DEFERRED INCOME TAX ASSET	(16,956)	(16,307)
TOTAL CORE CAPITAL	**95,560**	**92,058**

	2020 SHS M	2019 SHS M
SUPPLEMENTARY CAPITAL (TIER 2)		
GENERAL PROVISIONS PER FIA	5,318	4,901
SUBORDINATED DEBT		
TIER 2 CAPITAL	5,318	4,901
TOTAL CAPITAL (TIER 1 AND TIER 2)	**100,878**	**96,959**

The risk weighted assets are measured by means of a hierarchy of four risk categories classified according to the nature of the asset and reflecting an estimate of the credit risk associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses. The table below summarises the composition of the risk weighted assets of the Bank at 31 December 2020:

	BALANCE SHEET AMOUNT 2020 SHS M	 2019 SHS M	RISK WEIGHT %	RISK WEIGHTED AMOUNTS 2020 SHS M	 2019 SHS M
BALANCE SHEET ASSETS (NET OF PROVISIONS)					
CASH AND BALANCES WITH BANK OF UGANDA	114,502	120,203	0%		
DUE FROM COMMERCIAL BANKS IN UGANDA			20%		
AMOUNTS DUE FROM OTHER BANKS:					
RATED AAA TO AA (-)			20%		
RATED A (+) TO A (-)	28,115	16,374	50%	14,058	8,187
RATED A (-) AND NON-RATED	162		100%	162	
AMOUNTS DUE FROM GROUP COMPANIES	21,655	31,573	100%	21,655	31,573
LOANS AND ADVANCES TO CUSTOMERS	397,996	397,152	100%	397,996	397,152
INVESTMENT SECURITIES HELD TO MATURITY	263,134	170,423	0%		
PROPERTY AND EQUIPMENT	22,042	29,666	100%	22,042	29,666
OPERATING LEASE PREPAYMENTS	2,861	2,909	100%	2,861	2,909
INTANGIBLE ASSETS	4,397	4,175	0%		
DEFERRED TAX ASSETS (OFFSET AGAINST CORE CAPITAL)	16,956	16,307	0%		
OTHER ASSETS	8,999	17,197	100%	8,999	17,197
ON BALANCE SHEET ASSETS	**880,819**		**803,070**	**467,773**	**483,775**
OFF-BALANCE SHEET POSITIONS					
CONTINGENTS SECURED BY CASH COLLATERAL	17,768	47,590	0%		
GUARANTEES AND ACCEPTANCES			100%		
PERFORMANCE BONDS AND STANDBYS	137,260	110,533	50%	68,630	55,267
TRADE RELATED AND SELF-LIQUIDATING CREDITS	12,474	27,117	20%	2,495	5,423
COMMITMENTS TO LEND	20,888	17,137	50%	10,444	8,569
OFF BALANCE SHEET ITEMS	**188,390**	**202,377**		**81,569**	**69,259**
TOTAL RISK-WEIGHTED ASSETS	**1,069,209**	**1,005,447**		**549,342**	**553,034**
COUNTER PARTY CREDIT (CCR) EXPOSURE					
GOVERNMENT AND BANK OF UGANDA			0%		
RATED AAA TO AA (-) AND BANKS IN UGANDA			20%		
RATED A (+) TO A (-)			50%		

	2020 SHS M	BALANCE SHEET AMOUNT 2019 SHS M	RISK WEIGHT %	RISK WEIGHTED 2020 SHS M	AMOUNTS 2019 SHS M
BALANCE SHEET ASSETS (NET OF PROVISIONS)					
RATED A (-) AND NON-RATED			100%		
TOTAL RISK WEIGHTED CCR EXPOSURES					
MARKET RISK CHARGE					
FOREIGN EXCHANGE RISK	9,192	5,038	100%	9,192	5,038
INTEREST RATE RISK					
TOTAL MIN. CAPITAL REQUIRED FOR MARKET RISK	**9,192**	**5,038**		**9,192**	**5,038**
TOTAL RISK WEIGHTED ITEMS	**1,078,401**	**1,010,485**		**558,534**	**558,072**
CAPITAL RATIOS PER FINANCIAL INSTITUTIONS ACT (FIA)					
CORE CAPITAL				17.1%	16.5%
TOTAL CAPITAL				**18.1%**	**17.4%**
REGULATORY MINIMUM RATIO CAPITAL REQUIREMENT:					
CORE CAPITAL				10.0%	10.0%
TOTAL CAPITAL				**12.0%**	**12.0%**

5. Interest income

	2020 SHS M	2019 SHS M
LOANS AND ADVANCES	55,970	54,275
GOVERNMENT SECURITIES	21,846	18,152
SHORT TERM PLACEMENTS	1,860	2,687
	79,676	**75,114**

6. Interest expense

	2020 SHS M	2019 SHS M
CUSTOMER DEPOSITS	10,764	8,969
DEPOSITS DUE TO BANKING INSTITUTIONS	3,290	3,016
BORROWED FUNDS	12	49
OTHER		
	14,066	**12,034**

All related interest bearing liabilities were measured at amortised cost.

7. Fee and commission income

a) The breakdown below illustrates fees by service line

	2020 SHS M	2019 SHS M
OPERATIONAL FEES AND COMMISSION INCOME	17,292	20,137
CREDIT RELATED FEES AND COMMISSION INCOME	4,332	5,004
	21,624	**25,141**

b) The breakdown below illustrates the nature and timing of the satisfaction of performance obligations

	2020 SHS M	2019 SHS M
TRANSACTIONAL FEES AND COMMISSION INCOME	18,472	20,106
ACCOUNT SERVICES	3,152	5,035
	21,624	**25,141**

c) Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

TYPE OF SERVICE	NATURE AND TIMING OF SATISFACTION OF PERFORMANCE OBLIGATIONS, INCLUDING SIGNIFICANT PAYMENT TERMS	REVENUE RECOGNITION POLICIES UNDER IFRS 15
Account services	The Bank provides banking services to customers, including account management, card and servicing fees among others. Fees for ongoing account management are charged to the customer's account on a monthly basis. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided.
Transactional fees	Transaction-based fees for interchange, foreign currency transactions, channel access, and overdrafts are charged to the customer's account when the transaction takes place. The Bank sets the rates on an annual basis.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

8. Fee and commission expense

	2020 SHS M	2019 SHS M
TRANSACTIONAL FEES AND COMMISSION EXPENSE	6,120	4,801
CREDIT RELATED FEES AND COMMISSION EXPENSE	218	10
	6,338	**4,811**

All fee and commission income and expense arise from financial assets and financial liabilities that are not measured at fair value through profit and loss.

9. Foreign exchange income

	2020 SHS M	2019 SHS M
REALISED FOREIGN EXCHANGE GAINS	14,263	10,199
UNREALISED FOREIGN EXCHANGE (LOSSES)	(1,695)	
	12,568	**10,199**

10. Other operating income

	2020 SHS M	2019 SHS M
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF AS UNCOLLECTIBLE	840	4,039
MISCELLANEOUS INCOME	727	1,121
	1,567	**5,160**

11. Operating expenses

	2020 SHS M	2019 SHS M
EMPLOYEE BENEFITS EXPENSE (NOTE 12)	**34,607**	**39,149**
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 19)	6,501	5,915
AMORTISATION OF INTANGIBLE ASSETS (NOTE 21)	1,352	1,176
DEPRECIATION AND AMORTISATION	**7,853**	**7,091**
AUDITOR'S REMUNERATION	336	170
LEGAL AND PROFESSIONAL FEES	2,327	426
MARKETING AND ADVERTISING	1,866	1,587
TRAVEL EXPENSES	690	1,021
EXCISE DUTY ON FEES		710
OCCUPANCY AND PREMISES COSTS	1,128	1,169
COMMUNICATION EXPENSES	2,273	2,262
REPAIRS AND MAINTENANCE	6,778	7,155
DEPOSIT PROTECTION SCHEME CONTRIBUTION	1,124	1,165
PRINTING AND STATIONERY	646	790
OTHER OPERATING EXPENSES	5,905	6,753
OTHER EXPENSES	**23,684**	**23,208**
	65,533	**69,448**

12. Employee benefits expense

	2020 SHS M	2019 SHS M
SALARIES AND WAGES	26,585	30,396
NSSF CONTRIBUTIONS	2,159	2,195
DEFINED CONTRIBUTION SCHEME CONTRIBUTIONS	1,552	1,553
OTHER STAFF COSTS	4,311	5,005
	34,607	**39,149**

13. Taxation

a) Income tax expense

	2020 SHS M	2019 SHS M
CURRENT INCOME TAX CHARGE	4,560	3,952
DEFERRED INCOME TAX (CREDIT)/ EXPENSES (NOTE 26)	(649)	2,594
	3,911	**6,546**

The corporation tax rate is set at 30% of the profits for the year as adjusted for tax purposes in accordance with the Income Tax Act Cap 340.

The tax charge on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows.

	2020 SHS M	2019 SHS M
PROFIT BEFORE INCOME TAX	**17,285**	**26,700**
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2019: 30%)	**5,186**	**8,010**
TAX EFFECT OF		
INCOME NOT SUBJECT TO TAX	(6,047)	(5,811)
TAX EFFECT OF NON-DEDUCTIBLE ITEMS	212	395
FINAL TAX ON GOVERNMENT SECURITIES	4,560	3,952
INCOME TAX EXPENSE	**3,911**	**6,546**
THE EFFECTIVE TAX RATE	**22.6%**	**24.5%**

b) Tax payable was as follows:

	2020 SHS M	2019 SHS M
AT START OF YEAR	(1,469)	(1,531)
CURRENT INCOME TAX CHARGE	(4,560)	(3,952)
INCOME TAX PAID	3,719	4,014
AT END OF YEAR	**(2,310)**	**(1,469)**

14. Cash and balances with Bank of Uganda

	2020 SHS M	2019 SHS M
CASH ON HAND	53,128	48,795
OTHER MONEY-MARKET PLACEMENTS WITH BANK OF UGANDA		30,007
BALANCES WITH BANK OF UGANDA	61,417	41,472
LESS: EXPECTED CREDIT LOSS ALLOWANCE	(43)	(71)
	114,502	**120,203**
LESS: CASH RESERVE REQUIREMENT (FOR FURTHER DETAILS REFER TO NOTE 29)	(25,255)	(22,005)
AMOUNT TAKEN TO CASH AND CASH EQUIVALENTS (NOTE 29)	89,247	98,198

Refer to Note 17 (b) (ii) for the movement in ECL provision.

15. Deposits and balances due from other banking institutions

	2020 SHS M	2019 SHS M
BALANCES DUE FROM OTHER BANKING INSTITUTIONS – OUTSIDE UGANDA	28,277	16,374
DEPOSITS WITH OTHER BANKING INSTITUTIONS – INSIDE UGANDA		
LESS: IMPAIRMENT LOSS ALLOWANCE		
	28,277	**16,374**

Refer to Note 17 (b) (ii) for the movement in provision. The weighted average effective interest rate on deposits and balances due from other banking institutions was 3.3% (2019: 4.5 %).

16. Government securities and derivatives

	2020 SHS M	2019 SHS M
(A) HELD FOR TRADING AT FAIR VALUE THROUGH PROFIT OR LOSS	40,942	
(B) HELD TO MATURITY INVESTMENTS – AT AMORTISED COST		
TREASURY BILLS		
FACE VALUE: MATURING AFTER 90 DAYS OF THE DATE OF ACQUISITION	156,355	145,827
MATURING WITHIN 90 DAYS OF THE DATE OF ACQUISITION		
LESS: UNEARNED INTEREST	(8,016)	(7,443)
IMPAIRMENT LOSS ALLOWANCE	(117)	(139)
	148,222	**138,245**
TREASURY BONDS		
FACE VALUE: HELD TO MATURITY	36,598	42,435
LESS: UNEARNED DISCOUNT	(3,424)	(10,225)
IMPAIRMENT LOSS ALLOWANCE	(146)	(32)
	33,028	32,178
GOVERNMENT SECURITIES – AT AMORTISED COST	**181,250**	**170,423**
GOVERNMENT SECURITIES – TOTAL	**263,134**	**170,423**

Refer to Note 17 (b) (ii) for the movement in provision. The weighted average effective interest rate on treasury bills and bonds was 12.6% (2019: 12.7%)

All government securities are either held to maturity or for trading and as such the Bank does not hold any available for sale Investments.

c) Derivatives at fair value through profit or loss

Derivative Financial Instruments comprise forward foreign exchange contracts that are not designated as hedging instruments. 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. There were no derivative financial instruments held by the Bank at year end.

17. Loans and advances to customers and other financial instruments

a) Analysis of loan advances to customers at amortised cost:

	2020 SHS M	2019 SHS M
TERM LOANS	373,055	364,651
OVERDRAFTS	39,502	42,433
GROSS LOANS AND ADVANCES	**412,557**	**407,084**
LESS: EXPECTED CREDIT LOSS ON LOANS AND ADVANCES –		
STAGE 1	(1,819)	(3,981
STAGE 2	(3,292)	(923)
STAGE 3	(9,450)	(5,028)
	(14,561)	**(9,932)**
	397,996	**397,152**

b) Movements in impairment charged to the profit or loss are as follows

	2020 SHS M	2019 SHS M
BALANCES WITH BANKS	(8)	(50)
GOVERNMENT SECURITIES	92	(44)
LOANS AND ADVANCES TO CUSTOMERS	9,286	3,092
OTHER ASSETS	(71)	45
OFF BALANCE SHEET ITEMS	546	(422)
	9,845	**2,621**
MODIFICATION LOSS OF CONTRACTUAL CASHFLOWS FOR LOANS & ADVANCES	2,368	
	12,213	**2,621**

RECONCILIATION OF MOVEMENT IN IMPAIRMENT LOSSES	31 DECEMBER 2019 SHS M	ADDITIONAL PROVISIONS SHS M	AMOUNTS RECOVERED SHS M	WRITTEN OFF SHS M	31 DECEMBER 2019 SHS M
BALANCES WITH BANKS	119		(8)		111
GOVERNMENT SECURITIES	171	92			263
LOANS & ADVANCES TO CUSTOMERS	9,932	10,746	(1,460)	(4,657)	14,561
OTHER ASSETS	139		(71)		68
OFF BALANCE SHEET ITEMS	167	546			713
	10,528	**11,384**	**(1,539)**	**(4,657)**	**15,716**

c) Regulatory reserve (Analysis as per Bank of Uganda guidelines)

	2020 SHS M	2019 SHS M
IMPAIRMENT AS PER IFRS	14,561	9,932
IMPAIRMENT AS PER FIA		
SPECIFIC PROVISIONS	13,324	6,865
GENERAL PROVISIONS	5,318	4,901
TOTAL REGULATORY PROVISIONS	**18,642**	**11,766**
REGULATORY RESERVE		
AT 1 JANUARY	1,834	
TRANSFER TO THE REGULATORY RESERVE	2,247	1,834
AT 31 DECEMBER	**4,081**	**1,834**

d) Sectoral analysis on gross loans and advances

	2020 SHS M	2019 SHS M
AGRICULTURE	23,572	22,303
MANUFACTURING	63,788	46,703
TRADE AND COMMERCE	106,315	87,702
FINANCIAL SERVICES	11,257	19,040
TRANSPORT AND UTILITIES	7,156	19,297
BUILDING AND CONSTRUCTION	53,725	73,550
INDIVIDUALS	58,057	80,850
OTHER	88,687	57,639
	412,557	**407,084**

18. Other assets

	2020 SHS M	2019 SHS M
ACCOUNTS RECEIVABLE	113	992
ITEMS IN TRANSIT	3,460	10,065
OTHER	459	264
SUB-TOTAL	**4,031**	**11,321**
LESS: EXPECTED CREDIT LOSS ALLOWANCE	(68)	(139)
STATIONERY STOCK	370	340
OTHER PREPAYMENTS	4,665	5,675
	8,999	**17,197**

Refer to Note 17(b) (ii) for the movement in provision. The carrying amounts of other assets approximate to fair values.

19. Property and equipment

	LAND & BUILDINGS SHS M	MOTOR VEHICLES SHS M	FIXTURES, FITTINGS & EQUIPMENT SHS M	WORK IN PROGRESS SHS M	TOTAL SHS M
COST					
AT 1 JANUARY 2019	3,470	2,803	28,598	4,405	39,276
RIGHT OF USE ASSET (OPENING)	8,802		1,010		9,812
RIGHT OF USE ASSET ADDITIONS	6,004		1,518		9,737
ADDITIONS			2,215		2,215
TRANSFERS FROM WIP			4,167	(4,167)	
RECLASSIFICATION FROM LEASES	3,440				3,440
RECLASSIFICATION TO INTANGIBLE ASSETS				4	4
AT 31 DECEMBER 2019	**21,716**	**2,803**	**37,508**	**242**	**62,269**
ADDITIONS		236	1,069	59	1,364
RIGHT OF USE ASSET ADDITIONS	370		4		374
TRANSFERS FROM WIP			137	(137)	
DISPOSALS			(107)		(107)
AT 31 DECEMBER 2020	**22,086**	**3,039**	**38,611**	**164**	**63,900**
DEPRECIATION					
AT 1 JANUARY 2020	(4,736)	(2,459)	(25,408)		(32,603)
TRANSFERS (RECLASSIFICATION)					
DEPRECIATION ON DISPOSALS			107		107
RIGHT OF USE ASSET DEPRECIATION	(3,191)		(582)		(3,773)
CHARGE FOR THE YEAR	(121)	(203)	(2,404)		(2,728)
AT 31 DECEMBER 2020	**(8,048)**	**(2,662)**	**(28,287)**		**(38,997)**
NET CARRYING VALUE					
AT 31 DECEMBER 2020	**14,038**	**377**	**10,324**	**164**	**24,903**
AT 31 DECEMBER 2019	**16,980**	**344**	**12,100**	**157**	**29,666**

As at 31 December 2020, Property and Equipment includes Right of Use Assets of Shs 10,099 million (note 34 (a)) related to leased branches, & office premises, and other equipment.

20. Operating lease prepayments

	2020 SHS M	2019 SHS M
COST		
AT 1 JANUARY		3,440
RECLASSIFICATION TO RIGHT OF USE ASSET (BUILDINGS)		(3,440)
ADDITIONS		
AT 31 DECEMBER		
AMORTISATION		
AT 1 JANUARY		484
RECLASSIFICATION TO RIGHT OF USE ASSET (BUILDINGS)		(484
CHARGE FOR THE YEAR		47
RECLASSIFICATION TO RIGHT OF USE ASSET (BUILDINGS)		47
AT 31 DECEMBER		
NET BOOK VALUE AT 31 DECEMBER		

21. Intangible assets

	2020 SHS M	2019 SHS M
NET BOOK AMOUNT AT 1 JANUARY	4,175	4,737
ADDITIONS: COMPUTER SOFTWARE	600	572
TRANSFERS BETWEEN INTANGIBLE AND TANGIBLE WIP ASSETS	974	81
WRITE-OFFS		(39)
AMORTISATIONS	(1,352)	(1,176)
NET BOOK AMOUNT AT 31 DECEMBER	**4,397**	**4,175**
COST	15,331	13,758
ACCUMULATED DEPRECIATION	(10,934)	(9,583)
NET BOOK AMOUNT	**4,397**	**4,175**

The intangible assets relate to computer software acquired to support the Bank's operations.

22. Customer deposits

	2020 SHS M	2019 SHS M
A) CURRENT AND DEMAND DEPOSITS	254,600	267,851
SAVINGS ACCOUNTS	244,241	226,390
FIXED DEPOSIT ACCOUNTS	100,205	63,392
MARGIN DEPOSITS	18,513	20,930
	617,559	**578,563**

	2020 SHS M	2019 SHS M
(B) SECTORAL ANALYSIS - CUSTOMER DEPOSITS	254,600	267,851
BANKS AND FINANCIAL INSTITUTIONS	37,323	31,087
PRIVATE ENTERPRISES AND INDIVIDUALS	324,513	266,105
GOVERNMENT AND PARASTATALS	6,678	22,759
AGRICULTURE	17,159	15,137
BUILDING AND CONSTRUCTION	42,529	32,927
MANUFACTURING	11,837	18,095
TRADE AND COMMERCE	66,028	50,523
TRANSPORT AND UTILITIES	35,675	27,685
OTHER SERVICES	75,817	114,245
	617,559	**578,563**

The customer deposits above are both interest and non-interest bearing. The weighted average effective interest rate on customer deposits 1.8% (2019: 1.6%).

23. Deposits and balances due to other banking institutions

	2020 SHS M	2019 SHS M
ITEMS IN COURSE OF COLLECTION	26,562	6,581
TERM DEPOSITS	5,491	
	32,053	**6,581**

Term deposits with other banking institutions are interest bearing. The weighted average effective interest rate on deposits and balances due to other banking institutions was 3.7% (2019: 2.9%).

24. Other borrowings

	2020 SHS M	2019 SHS M
EIB – Private Enterprise Finance Facility	270	418
BOU Agricultural Credit Facility	190	190
	460	**608**

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 Central Bank plus a margin which averaged 10.5% for 2020. Each tranche has a minimum tenor of three years and a maximum tenor of ten years.

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.

25. Other liabilities

	2020 SHS M	2019 SHS M
BILLS PAYABLE	868	908
CREDITORS	6,609	5,478
LEASE LIABILITY	9,673	12,445
ACCRUALS	15,007	14,920
OTHER PAYABLES	3,437	1,000
	35,594	**34,751**

The carrying amounts of other liabilities approximate to fair values.

26. Deferred income 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:

	2020 SHS M	2019 SHS M
ACCELERATED CAPITAL ALLOWANCES	(1,689)	(1,364)
TAX LOSSES BROUGHT FORWARD	14,524	14,692
LEASES	350	186
PROVISIONS FOR LOAN IMPAIRMENT	718	1,098
OTHER PROVISIONS	2,553	1,703
UNREALISED TRANSLATION DIFFERENCES	500	(8)
NET DEFERRED TAX ASSET	**16,956**	**16,307**
THE MOVEMENT ON THE DEFERRED TAX ASSET ACCOUNT IS AS FOLLOWS:		
AT START OF YEAR	16,307	18,901
ADJUSTMENT THROUGH THE RETAINED EARNINGS		
ADJUSTED THROUGH PROFIT AND LOSS:		
- PRIOR YEAR OVER PROVISION FOR DEFERRED TAX		
- INCOME STATEMENT CREDIT/ (CHARGE) – CURRENT YEAR (NOTE 13)	649	(2,594)
AT END OF YEAR	**16,956**	**16,307**

27. Share capital

	NUMBER OF SHARES ISSUED AND FULLY PAID (THOUSANDS)	ORDINARY SHARES SHS M	SHARE PREMIUM SHS M
2019			
BALANCE AT 1 JANUARY 2019	46,775	46,775	23,614
BALANCE AT 31 DECEMBER 2019	**46,775**	**46,775**	**23,614**
2020			
BALANCE AT 1 JANUARY 2020	46,775	46,775	23,614
BALANCE AT 31 DECEMBER 2020	**46,775**	**46,775**	**23,614**

The total authorised number of ordinary shares is Shs 46.7 million (2019: Shs 46.7 million) with a par value of Shs 1,000 per share. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

28. Bank shareholding

	COUNTRY OF INCORPORATION	2020 %	2019 %
BANK OF AFRICA - KENYA LTD.	KENYA	5.91	5.91
AFRICAN FINANCIAL HOLDING (AFH)	MAURITIUS	38.92	37.96
BMCE BANK OF AFRICA	MOROCCO	47.41	47.41
CENTRAL HOLDINGS LTD.	UGANDA	7.76	7.76
NETHERLANDS DEVELOPMENT FINANCE COMPANY	THE NETHERLANDS		0.96
		100.00	**100.00**

25. Other liabilities

	2020 SHS M	2019 SHS M
CASH AND BALANCES WITH BANK OF UGANDA (NOTE 14)	89,247	98,198
DEPOSITS AND BALANCES DUE FROM OTHER BANKS (NOTE 15)	28,277	16,374
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 32 (B))	21,655	31,573
	139,179	**146,145**

For the purposes of the cashflow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central bank, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents also excludes the cash reserve requirement held with BOU.

The Bank is required to maintain prescribed minimum cash reserve balances with Bank of Uganda for 14 day periods. The amount for a given current period, is determined as 8% of the average daily outstanding customer deposits over the previous two week cash reserve cycle period. The Cash reserve balances held while available for use in the Bank's day to day activities are only allowed to fluctuate to lower amounts not less than 50% of the mandatory 2 week average requirement on any given day provided. However, the average for such a period should not be lower than the minimum requirements, and is subject to sanctions for non-compliance.

30. Earnings per share

	2020 SHS M	2019 SHS M
CPROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (MILLION SHS)	13,374	20,154
WEIGHTED AVERAGE NUMBER OF PAID UP ORDINARY SHARES (THOUSANDS)	46,775	46,775
EARNINGS PER SHARE (EXPRESSED IN SHS PER SHARE)	285.92	430.87

There were no potentially dilutive shares outstanding at 31 December 2020 (2019: Nil).

31. Dividends

	2020		2019	
	PER SHARE USHS	SHS M	PER SHARE USHS	SHS M
PROPOSED DIVIDENDS	145.00	6,782	195.00	9,121

At the annual general meeting held in 2021, a dividend of Shs 145.00 per share amounting to Shs 6,782 million in total is to be proposed (2019: 195). The total dividend payable is Shs 15,903 million and this includes the 2019 approved dividend whose pay out was deferred due to restrictions imposed by the Central Bank of Uganda, to mitigate the adverse effects of Covid-19. The payment of dividends is subject to withholding tax at rates depending on the tax status or residence of the recipient.

32. Related parties and large exposures

a) Parent and ultimate controlling party

During the year 31 December 2020, BMCE Bank remained the majority shareholder with a total ownership of 22,176,454 shares directly in BANK OF AFRICA – UGANDA Limited at 47.41%. BMCE Bank is also the ultimate controlling party.

b) Due from group companies

	2020 SHS M	2019 SHS M
BANK OF AFRICA – D.R. CONGO		
BANK OF AFRICA – FRANCE	5,032	5,733
BANK OF AFRICA – KENYA	251	8,232
BANK OF AFRICA – GHANA		
BANK OF AFRICA – TANZANIA	14,935	14,873
BANK OF AFRICA – RWANDA	194	18
BMCE BANK OF AFRICA	1,243	2,717
	21,655	**31,573**

These are current account balances and overnight placements measured at amortised cost and held for liquidity management reasons. They have a weighted average interest rate of 1.2%. The entities above are affiliates with BMCE BANK OF AFRICA as ultimate beneficial owner.

c) Amounts due to group companies

	2020 SHS M	2019 SHS M
BANK OF AFRICA – MER ROUGE	53,617	53,778
BANK OF AFRICA – KENYA	1,874	2,745
BANK OF AFRICA – TANZANIA	4	7
BANK OF AFRICA – D.R. CONGO	87	942
BANK OF AFRICA – RWANDA	341	83
BMCE BANK OF AFRICA	23	20
	55,946	**57,575**

These are current account balances and medium term borrowings (1 year) measured at amortised cost and have a weighted average interest rate of 4.75%. The medium term borrowings are held for direct participation on credit facilities. The entities above are affiliates with BMCE BANK OF AFRICA as ultimate beneficial owner.

d) Related party balances

	2020 SHS M	2019 SHS M
DEPOSITS FROM DIRECTORS AND SHAREHOLDERS	498	112
LOANS TO DIRECTORS		
ADVANCES TO STAFF	9,497	8,487
	9,995	**8,599**

The largest exposure to a related party was Shs 290 million at a rate of 10% extended for 7.25 years.

e) Related party transactions

	2020 SHS M	2019 SHS M
KEY MANAGEMENT COMPENSATION:		
SALARIES AND SHORT-TERM BENEFITS	4,243	5,972
TERMINAL BENEFITS	338	203
	4,581	**6,175**
DIRECTORS' REMUNERATION:		
DIRECTORS' FEES	607	978
OTHER EMOLUMENTS	4,243	5,972
	4,850	**6,950**
INTEREST EARNED FROM RELATED PARTIES:		
BANK OF AFRICA – KENYA	5	201
BANK OF AFRICA – TANZANIA	539	125
BANK OF AFRICA – RWANDA	2	93
BMCE TANGIER OFFSHORE TOS	20	254
BANK OF AFRICA – D.R. CONGO		
BANK OF AFRICA – GHANA	226	204
BMCE BANK INTERNATIONAL	6	55
	798	**932**
INTEREST PAID TO RELATED PARTIES/ DIRECTORS:		
BANK OF AFRICA – MER ROUGE	1,707	1,596
BANK OF AFRICA RWANDA	3	
BANK OF AFRICA – KENYA	1	31
	1,711	**1,627**

f) Large Exposures (exposures with more than 25% of Core Capital)

	2020 SHS M	2019 SHS M
NUMBER OF BORROWERS	1	3
AGGREGATE AMOUNT	35,257	81,732

All amounts in excess of the single obligor limit are cash covered, and none exceeds 50% of Core Capital.

33. 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 year end:

	2020 SHS M	2019 SHS M
TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	23,212	30,820
PERFORMANCE BONDS AND STANDBYS	153,751	153,667
LESS: LOSS IMPAIRMENT ALLOWANCE	(688)	(109)
	176,275	**184,378**

Non-trade contingent liabilities

There were outstanding legal proceedings against the Bank as at 31 December 2020 which arise from normal day to day banking operations. In the opinion of the directors, after taking professional legal advice, the estimated potential liability to the Bank from these proceedings is Shs 3,039 million (2019: Shs 1,070 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. At 31 December, these included:

	2020 SHS M	2019 SHS M
COMMITMENTS TO LEND	20,888	17,891
LESS: IMPAIRMENT LOSS ALLOWANCE	(25)	(58)
	20,863	**17,833**
CURRENCY SWAPS AND FORWARDS PAYABLE		

34. Leases

The Bank leases buildings and other equipment. Information about leases for which the Bank is a lessee is presented below:

a) Right of Use Assets

	BUILDINGS	OFFICE EQUIPMENT	COMPUTER HARDWARE	TOTAL
BALANCE AS AT 1 JANUARY 2020	11,577	1,798	122	13,497
ADDITIONS	320	54		374
DEPRECIATION CHARGE	(3,182)	(543)	(47)	(3,772)
BALANCE AS AT 31 DECEMBER 2020	**8,715**	**1,309**	**75**	**10,099**

b) Maturity analysis – contractual undiscounted cashflows

	2020 SHS M	2019 SHS M
LESS THAN 1 YEAR	2,967	5,720
1 YEAR – 5 YEARS	8,001	9,743
MORE THAN 5 YEARS		
TOTAL UNDISCOUNTED CASHFLOWS 31 DECEMBER	**10,968**	**15,463**

Lease Liabilities Included in the statement of Financial Position as at 31 December 2020.

c) Lease liabilities

	2020 SHS M	2019 SHS M
CURRENT LEASE LIABILITIES	118	265
NON – CURRENT LEASE LIABILITIES	9,555	12,180
MORE THAN 5 YEARS		
TOTAL LEASE LIABILITIES	**9,673**	**12,445**

d) Amounts recognised in the profit or loss

	2020 SHS M	2019 SHS M
FINANCE COST ON LEASE LIABILITIES	1,079	1,317
EXPENSES RELATING TO SHORT TERM LEASES		
EXPENSES RELATING TO LEASES OF LOW VALUE ASSETS	984	1,436
TOTAL LEASE EXPENSES	**2,063**	**2,753**

35. Other COVID-19 Impacts

General considerations

In view of an escalating spread of the disease, throughout the year, several measures were issued by the government of Uganda through the ministry of health and the Central Bank supported by Uganda Bankers Association (specifically directed to Financial institutions) to curtail the spread of the virus and safeguarding the business environment. Such measures included travel restrictions (both local and international), implementation of curfew, closure of high-risk sectors or businesses (such as hotels, schools, places of worship), an expansionary monetary policy, relaxation of credit provisioning rules, restrictions on discretionary payments (including Bonus and Dividends) among others.

Consequently, the country's economic performance was challenged having receded by 1.2% in 2020 marred with pessimism within the business community. The Central Bank projects a GDP growth of 3 – 4% for the financial year 2020/ 21 only recovering to 5 – 6% in 2021/22 driven by resumption in domestic and foreign demand bolstered by optimism associated with the COVID-19 vaccine development complemented by fiscal and monetary policy actions. Inflation projections range between 5 – 6% in 2020/ 21 which is fairly within monetary policy targets while the fiscal deficit is projected to widen to close to near the East African Monetary Union threshold of 50% by end of the financial year 2020/21.

As a result of this volatile and evolving situation on the pandemic, the Bank amended operational procedures to enhance protection of staff and customers from the Pandemic, while ensuring proactive customer engagement approaches to foster resilience. The Bank also refocused its strategy to driving digital channel usage, efficient service delivery and sector-specific business orientation.

Other financial instruments

The Bank continued to service its financial liabilities including borrowings, and there were no realised default events.

The Bank has also not reclassified any financial instruments on the basis on any changes in the business model and the application thereof.