BANK OF AFRICA - UGANDA

2007 ANNUAL REPORT

BANK OF AFRICA
UGANDA

GROUPE BANK OF AFRICA

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BANK OF AFRICA - UGANDA

BOA-UGANDA was the second Bank in the BANK OF AFRICA Group set up in the English-speaking zone, at the end of 2006. The result of the BOA Group purchasing a subsidiary of Banque Belgolaise, BOA-UGANDA is already serving all categories of customers and had eight branches at the beginning of 2008.

The photography for this year's BANK OF AFRICA Group annual reports has taken the theme of nature, and illustrates the immense wealth of Africa's flora, fauna and landscapes, fashioned by the continent's extraordinary climatic, geological and biological diversity. It attempts, in these few images, to capture the wonderful variety of the land — a land which, when cultivated by men, gives the best of itself, in a thousand different ways depending on the region.

Group Banks and Subsidiaries in 2007

10 COMMERCIAL BANKS AND THEIR BRANCHES				
BOA-BENIN	9	◆ Cotonou	8	▲ Azové, Abomey-Calavi, Bohicon, Dassa-Zoumé, Djougou, Parakou, Porto-Novo, Ouando (Porto-Novo).
BOA-BURKINA FASO	5	◆ Ouagadougou	4	▲ Bobo-Dioulasso, Fada, Koupéla, Pouytenga.
BOA-COTE D'IVOIRE	8	◆ Abidjan	1	▲ San Pedro.
BOA-KENYA	4	◆ Nairobi	1	▲ Mombasa.
BOA-MADAGASCAR	13	◆ Antananarivo	41	▲ Spread over the whole country.
BOA-MALI	6	◆ Bamako	4	▲ Kayes, Koulikoro, Koutiala, Sikasso.
			2	▲ Morila (Sikasso), Sadiola (Kayes).
			1	● Paris.
BOA-NIGER	4	◆ Niamey	4	▲ Agadez, Dosso, Maradi, Tillaberi.
BOA-SENEGAL	6	◆ Dakar	1	▲ Touba.
BOA BANK-TANZANIA	4	◆ Dar es Salaam		
BOA-UGANDA	5	◆ Kampala	2	▲ Jinja, Arua.
GIE GROUPE BANK OF AFRICA		● Paris		
1 HOUSING FINANCE BANK				
BANQUE DE L'HABITAT DU BENIN	1	◆ Cotonou		
3 LEASE FINANCE COMPANIES				
EQUIPBAIL-BENIN		● Cotonou		
EQUIPBAIL-MADAGASCAR		● Antananarivo		
EQUIPBAIL-MALI		● Bamako		
1 FIRM OF STOCKBROKERS				
ACTIBOURSE		● Cotonou	1	● Abidjan: liaison office.
2 INVESTMENT COMPANIES				
AGORA		● Abidjan		
ATTICA		● Cotonou		
1 INFORMATION TECHNOLOGY SUBSIDIARY				
AISSA		● Cotonou		

◆ Branches ▲ Regional branches ▲ Local branch ● Head office ● Representative office

Group strong points

Quality of customer service

Dynamism and

Financial solidity and cohesion

Expertise in financial engineering

A STRONG NETWORK

- Over 2,000 people, at your service.
- More than 130 dedicated operating and production sites in 11 countries, excluding affiliated partners.
- Major holding in several life insurance companies.
- A strategic banking partner, BMCE, Morocco's second-ranking private bank.
- Corporate partners, including:

PROPARCO, INTERNATIONAL FINANCE CORPORATION (IFC - WORLD BANK GROUP), WEST AFRICAN DEVELOPMENT BANK (BOAD), NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO), AUREOS EAST AFRICA FUND LLC, AND BELGIUM INVESTMENT COMPANY FOR DEVELOPING COUNTRIES (BIO).

CONTINUOUS GROWTH FOR 25 YEARS

- Over 500,000 bank accounts.
- A fleet of Automated Teller Machines and Electronic Payment Terminals.

A WIDE AND VARIED OFFER

- Full range of banking and financial services.
- Attractive range of life insurance policies.
- Strong regional network.

UNIQUE EXPERIENCE IN AFRICA

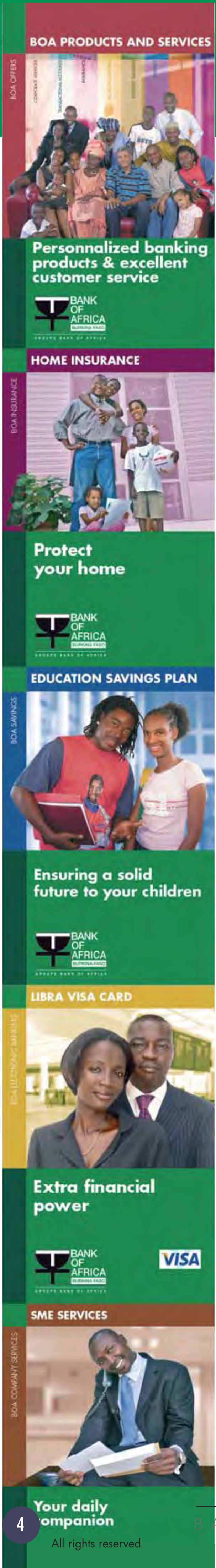
- 25 years' experience in Africa.

availability of staff of the network

Diversity, with a wide range of financing solutions

GROUP TOTAL TURNOVER IN 2007

± 200 million €



Main Products of BOA-UGANDA

BOA ENGLISH SPEAKING NETWORK		BOA-UGANDA	
Accounts	Current Account	(Local & Foreign Currency)	●
	Remunerated Current Account		●
Investment Products	Call Deposits Account		●
	Chama Account		
	Children Savings Account	"Watoto"	●
	Family Savings Account		
	Ero Savings Account		●
	Gold Plus Account		●
	Investment Plan Account		
	Ordinary Savings Account		●
	Premium Plus Fixed Deposit		
	Schools Fees Account		●
	Senior Citizen Fixed Deposit		
	SESAME Savings Account		●
	Student Investment Teams		
	Term Deposit		●
Electronic Banking	BOA On Line		●
	B-Web		
	SESAME ATM Card		●
Loans	2 in 1 loan		●
	Bridging Overdraft		●
	Instant Cash		●
	Personal Loans		●
	Salary Advance		
	Schools Fees Loan		
	Super Kikapu		●
BOA Company Services	BOA-TANZANIA also offers a wide range of products and services to Corporates, SMEs, Organizations, Institutions, Professionals and Individuals.		●
Transfers and Changes	Foreign Exchange		●
	Moneygram		●
	Travellers Cheques		
	Western Union		
Complementary Products & Services	Banker's Cheques		●

Annual Report 2007

The Rwenzori Mountains - or the Mountains of the Moon - along the border area between the western Uganda and the DRC, and near the source of the Nile.
© M & C Denis-Huot

Comments from the Managing Director

Frozen Lobelia, at dawn. © M & C Denis-Huot

Despite the biting effects of high energy costs resulting from electric power shortages and high international crude oil prices as well as the massive floods experienced in Eastern Uganda in 2007, Uganda's economy recorded significant upsurge characterised by a healthy real Gross Domestic Product growth rate of 7%. Core inflation and interest rates declined while the Shilling continued to strengthen against the US Dollar. The related key drivers included declining food prices, foreign direct investments especially in construction and manufacturing sectors, and large foreign exchange inflows from non-governmental organizations. Fitch ratings confirmed Uganda's foreign and local currency Issuer Default Ratings (IDRs) at B with a stable outlook as a result of the long track record of macro-economic stability and reform.

In this environment, Uganda's banking sector continued to grow with increases in customer deposits and lending to the private sector. Several commercial banks expanded their branch network and five new banks were licensed, underpinning the increasing level of competition in the sector. The sector continued to be healthy with average non-performing assets to total assets at 3%.

Against this backdrop, the Bank consolidated its new Pan-African identity through several strategies. In March, the new head office premises were launched and these included the Agence Elite section aimed at servicing our private banking customers. The bank's presence was further enhanced with a new branch in the Kampala central business district. To further support customer financing needs, the bank signed up to two lines of credit, one with the European Investment Bank and another with the Netherlands Development Finance Company (FMO). Drawdown is expected in 2008 to boost our lending across all viable sectors. In August, the Bank implemented a new banking software which will significantly improved service delivery, and introduced several new products into the market, tailored to meet customer needs, under our 'Yes' banking campaign. In terms of deposit, the Bank market share is about 2.5%.

Consequently, the Bank's asset footing increased by 21% to Shs 102 billion with notable growth in loans and advances while customer deposits increased by 28% to Shs 78 billion. Net profit for the year rose to Shs 2.1 billion reflecting a 15% growth mainly attributed to increases in net interest income and fees and commissions. These increases were modest and partially subdued by re-branding costs and relatively high provisions for loan losses.

As part of our commitment to our community, the Bank has sponsored a number of community programmes including support to the Eastern Uganda flood victims, the Uganda Women's Entrepreneurs, the Private Sector Foundation as well as several children's homes including Kajjansi and Bweya Children's homes.

The platform for robust growth has been laid and the Bank will now aim to further bring its services closer to communities by expanding its footprint in 2008. We shall continue to serve our customers through continuous improvement in service delivery and development of new products suited to their needs, with that personal touch.

The BANK OF AFRICA - UGANDA team is grateful to its customers for the loyalty and support they have continuously expressed and we wish to assure them of our continued commitment to support their growth in the challenges of 2008 as we move forward together. Finally, we would like to thank the staff for their devotion and their contribution to the prosperity of the Bank.

Kwame AHADZI
Managing Director

Key facts 2007

MARCH

• Launched the Bank's new Head Office Building on Plot 45 Jinja Road as well as the new Agence Elite section for our private banking customers.
• Issue of new ATM cards branded SESAME.
• Participation in the Groupe BANK OF AFRICA's meeting for the Directors of the network in Casablanca, Morocco.

MAY

• Participation in the Groupe BANK OF AFRICA's meeting for the management of the network in Bamako, Mali.

JULY

• Signed a finance contract with the EUROPEAN INVESTMENT BANK for a EUR 2 million line of credit.

AUGUST

• Implemented new banking software, IGOR.

SEPTEMBER

• Existing shareholders increased the share capital from UGX 4 billion to UGX 4.5 billion.
• New products were launched including the Instant Cash facility, Schools Bridging Finance, the GoldPlus Account, The Two in One loan, and the Super Kikapu.

OCTOBER

• Opened the Bank's new Kampala Road Branch to the public.

NOVEMBER

• Signed a Euro 2.5m SME Line of Credit with the NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO).

Key figures 2007

Kob, (Adenota kob Thomasi), symbolizing abundance of wildlife on Uganda emblem. © M & C Denis-Huaut

Activity

Deposits *	78,325
Loans *	54,608

Income

Operating income *	12,742
Operating expense *	9,306
Profit before tax *	2,494

Structure

Total assets *	101,794
Number of employees	142

* in UGX million

(EUR 1 = UGX 2 511, 296)

Board of Directors

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

- John CARRUTHERS, Chairman
- Kwame AHADZI, Managing Director
- Christopher KIGENYI
- Paul DERREUMAUX
- Vincent de BROUWER
- Mohan KIWANUKA
- Richard CARTER
- Shakir MERALI

Capital

The authorised share capital of the bank is UGX 5,000,000,000 divided into 5,000,000 ordinary shares with par value of UGX 1,000 each. The issued share capital is UGX 4,541,813,000 at a premium of UGX 756,682,000.

The following was the bank's shareholding structure as at 31 December 2007:

Auditors

PricewaterhouseCoopers

The Bank's Corporate Social Responsibility activities

BOA-UGANDA strives to be a visible and contributing member of the community and we are committed to improving the communities in which we do business. Our goal is to help make the communities in which we operate stronger by supporting organizations or events that achieve a positive and broad impact on education, environment, health and welfare, arts and culture and economic development in our market areas.

As an organization we are committed to:

- Reinvesting a portion of our annual net income to support worthwhile causes.
- Being a model of service to our communities by participating in initiatives that fulfill our mission.
- Volunteering to support organizations that accomplish the same mission as ours, by encouraging employee involvement in the community.

The Managing Director, BOA-UGANDA – Mr. Kwame Ahadzi (right) hands over blankets to the Minister of State for Disaster preparedness – Mr. Musa Ecweru.

2007 Activities

The Bank continued to support the community through a number of initiatives. Key activities included the following:

Donation of Relief Items to Flood Victims in Eastern Uganda

In September 2007, the Eastern part of Uganda was ravaged by floods which destroyed the livelihood of the victims. As part of its Corporate Social Responsibilities program BOA-UGANDA donated over 30 bales of blankets to assist the communities which were affected by the floods. This donation was specifically targeted towards women and children.

The Head of Commercial Division BOA-UGANDA, Mr. Stevens Mwanje chats with children at Bweya Children's home.

Support to Bweya Childrens' Home

In December 2007, BOA-UGANDA donated beds, mattresses, blankets and bed sheets to Bweya Children's home. This initiative was spear-headed by the staff of the Bank who contributed financially towards its success.

Participation in the MTN Marathon

The Bank sponsored a team of 60 staff members who participated in the annual MTN marathon. The proceeds from the marathon go towards improving the welfare of expectant mothers in internally displaced peoples' camps in Northern Uganda.

The annual MTN marathon.

Report and Financial Statements

A crater lake, in Queen Elizabeth Park, Uganda's most-visited game reserve. © M & C Denis-Huaut

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2007, which disclose the state of affairs of BANK OF AFRICA – UGANDA Ltd ("the Bank").

Principal activities

The Bank is engaged in the business of banking and the provision of related services.

Results and dividend

The net profit for the year of Shs 2,092 million (2006: Shs 1,836) has been added to retained earnings. No interim dividend was paid during the year. The directors do not recommend the payment of a dividend.

Directors

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

John CARRUTHERS	Chairman
Kwame AHADZI	Managing Director
Christopher KIGENYI	Executive Director
Vincent de BROUWER	Non-executive Director
Mohan KIWANUKA	Non-executive Director
Paul DERREUMAUX	Non-executive Director (Appointed 24 September 2007)
Shakir MERALI	Non-executive Director (Appointed 6 July 2007)
Richard CARTER	Non-executive Director (Appointed 7 February 2007)
Jean-François BEYER	Non-executive Director (Resigned 30 January 2007)
Guido BOYSEN	Non-executive Director (Resigned 30 January 2007)

Auditor

The Bank's auditor, PricewaterhouseCoopers, has indicated its willingness to continue in office in accordance with the provisions of Section 159(2) of the Ugandan Companies Act and Section 62(1) of the Financial Institutions Act, 2004.

By order of the Board

Stephen BEYANGA
SECRETARY

16 April 2008

Report and Financial Statements

BOA-Uganda Main Branch, , in Kampala. © BOA-UGANDA

Statement of Directors' Responsibilities

The Ugandan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Ugandan Companies Act and the Financial Institutions Act 2004. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit or loss in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

K. AHADZI	**C. KIGENYI**	**J. CARRUTHERS**
Managing Director	Executive Director	Chairman

16 April 2008

BOA-UGANDA Banking hall. © BOA-UGANDA

BOA-UGANDA Head Office, in Kampala. © BOA-UGANDA

Report of the independent auditors

to the Members of BANK OF AFRICA - UGANDA Ltd.

Report on the financial statements

We have audited the accompanying financial statements of BANK OF AFRICA – UGANDA Limited set out on pages 18 to 48. These financial statements comprise the balance sheet at 31 December 2007, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Ugandan Companies Act and the Financial Institutions Act 2004. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the company's financial affairs at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Ugandan Companies Act and the Financial Institutions Act 2004.

Report on other legal requirements

The Ugandan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

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

iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

PricewaterhouseCoopers

Certified Public Accountants

Kampala, 16 April 2008

Financial Statements

Eastern Black and White Colobus Monkeys (Colobus guereza) in the canopy. © M & C Denis-Huaut

PROFIT AND LOSS ACCOUNT

	NOTES	YEAR ENDED 31 DECEMBER 2007 SHS MILLION	YEAR ENDED 31 DECEMBER 2006 SHS MILLION
INTEREST INCOME	5	9,986	7,670
INTEREST EXPENSE	6	(2,806)	(1,998)
NET INTEREST INCOME		**7,180**	**5,672**
FEE AND COMMISSION INCOME		4,668	3,293
FEE AND COMMISSION EXPENSE		(261)	(81)
NET FEE AND COMMISSION INCOME		**4,407**	**3,212**
NET FOREIGN EXCHANGE INCOME		951	715
OTHER OPERATING INCOME		204	308
OPERATING INCOME		**12,742**	**9,907**
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	13	(942)	(424)
OPERATING EXPENSES	7	(9,306)	(7,263)
PROFIT BEFORE INCOME TAX		**2,494**	**2,220**
INCOME TAX EXPENSE	9	(402)	(384)
PROFIT FOR THE YEAR		**2,092**	**1,836**

BALANCE SHEET

	NOTES	AT 31 DECEMBER 2007	AT 31 DECEMBER 2006
		SHS MILLION	SHS MILLION
ASSETS			
CASH AND BALANCES WITH BANK OF UGANDA	10	14,497	10,405
AMOUNTS DUE FROM OTHER BANKS	11	3,084	16,975
AMOUNTS DUE FROM GROUP COMPANIES	29	35	948
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	12	15	71
LOANS AND ADVANCES TO CUSTOMERS	13	54,608	31,519
INVESTMENT SECURITIES HELD TO MATURITY	14	17,080	16,319
PROPERTY AND EQUIPMENT	15	5,879	4,695
INTANGIBLE ASSETS	16	1,662	101
CURRENT INCOME TAX ASSETS	17	1,010	575
OTHER ASSETS	19	3,924	2,738
TOTAL ASSETS		**101,794**	**84,346**
LIABILITIES			
CUSTOMER DEPOSITS	20	78,325	60,985
DEPOSITS FROM OTHER BANKS	21	5,243	7,343
AMOUNTS DUE TO GROUP COMPANIES	29	913	54
OTHER BORROWED FUNDS	22	2,673	3,076
DEFERRED INCOME TAX LIABILITIES	18	278	138
RETIREMENT BENEFIT OBLIGATIONS	23	-	461
OTHER LIABILITIES	24	1,373	2,690
TOTAL LIABILITIES		**88,805**	**74,747**
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	25	4,542	4,001
SHARE PREMIUM	25	757	-
REGULATORY RESERVE	26	558	381
RETAINED EARNINGS		7,132	5,217
TOTAL SHAREHOLDERS' EQUITY		**12,989**	**9,599**
TOTAL EQUITY AND LIABILITIES		**101,794**	**84,346**

The financial statements on pages 18 to 48 were approved for issue by the Board of Directors on 16 April 2008 and signed on its behalf by:

K. AHADZI	C. KIGENYI	J. CARRUTHERS	S. BEYANGA
Managing Director	Executive Director	Chairman	Secretary

STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL	SHARE PREMIUM	REGULATORY RESERVE	RETAINED EARNINGS	TOTAL
		SHS MILLION	SHS MILLION	SHS MILLION	SHS MILLION	SHS MILLION
YEAR ENDED 31 DECEMBER 2006						
AT START OF YEAR		4,001	-	21	3,741	7,763
PROFIT FOR THE YEAR					1,836	1,836
INCREASE IN REGULATORY RESERVE	26			360	(360)	-
AT END OF YEAR		**4,001**	**-**	**381**	**5,217**	**9,599**
YEAR ENDED 31 DECEMBER 2007						
AT START OF YEAR		4,001	-	381	5,217	9,599
PROFIT FOR THE YEAR					2,092	2,092
INCREASE IN REGULATORY RESERVE	26			177	(177)	-
ISSUE OF SHARE CAPITAL	25	541	757			1,298
AT END OF YEAR		**4,542**	**757**	**558**	**7,132**	**12,989**

CASH FLOW STATEMENT

	NOTES	YEAR ENDED 31 DECEMBER 2007 SHS MILLION	YEAR ENDED 31 DECEMBER 2006 SHS MILLION
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		10,057	7,537
INTEREST PAYMENTS		(2,260)	(1,889)
NET FEE AND COMMISSION RECEIPTS		4,407	3,212
OTHER INCOME RECEIVED		1,140	1,021
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF	13	406	124
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(8,618)	(6,481)
INCOME TAX PAID	17	(697)	(433)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		4,435	3,091
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(24,541)	(6,353)
- CASH RESERVE REQUIREMENT		(1,266)	(4,466)
- OTHER ASSETS		(825)	332
- CUSTOMER DEPOSITS		16,885	4,039
- DEPOSITS FROM OTHER BANKS		(2,161)	6,569
- AMOUNTS DUE TO/FROM GROUP COMPANIES		859	(614)
- OTHER LIABILITIES		(1,911)	227
NET CASH FROM OPERATING ACTIVITIES		(8,525)	2,825
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	15	(1,932)	(3,025)
PURCHASE OF INTANGIBLE ASSETS	16	(1,569)	(89)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		72	12
PURCHASE OF SECURITIES		(957)	5,126
NET CASH USED IN INVESTING ACTIVITIES		4,386	2,024
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES	25	1,162	-
PROCEEDS FROM BORROWED FUNDS		-	1,480
REPAYMENT OF BORROWED FUNDS		(433)	-

SH FLOW STATEMENT (CONTINUED)

CASH FLOW STATEMENT (CONTINUED)

	NOTES	YEAR ENDED 31 DECEMBER 2007 SHS MILLION	YEAR ENDED 31 DECEMBER 2006 SHS MILLION
NET CASH FROM FINANCING ACTIVITIES		**729**	**1,480**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(12,182)**	**6,329**
CASH AND CASH EQUIVALENTS AT START OF YEAR		24,378	18,049
CASH AND CASH EQUIVALENTS AT END OF YEAR	**28**	**12,196**	**24,378**

Notes

Macrolichens and arborescent heathers, in the upper forest of the Rwenzori mountains. © M & C Denis-Huaut

1 General information

The Bank is incorporated in Uganda under the Companies Act as a public limited liability company, and is domiciled in Uganda. The address of its registered office is:

PLOT 45 JINJA ROAD
P. O. BOX 2750
KAMPALA, UGANDA.

2 Summary of significant 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 years presented, unless otherwise stated.

(A) BASIS OF PREPARATION

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Uganda Shillings (Shs), rounded to the nearest million.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Notes

Adoption of new and revised standards

In 2007, the following new and revised standards and interpretations became effective for the first time and have been adopted by the Bank where relevant to its operations. The comparative figures have been restated as required, in accordance with the relevant requirements.

- IAS 1 Amendment, Capital Disclosures. The amendment to IAS 1 introduces disclosures about the level of the Bank's capital and how it manages capital.

-IFRS 7, Financial Instruments: Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification or measurement of the Bank's financial instruments.

Standards, interpretations and amendments to published standards that are not yet effective.

The following amendment to an existing standard and new standard and interpretations will be mandatory for the Bank's accounting periods beginning on or after 1 January 2008, but which the Bank has not early adopted:

- IFRIC 11 — Group and Treasury Share Transactions — from 1 January 2008
- IFRIC 12— Service Concession Arrangements — from 1 January 2008
- IFRS 8— Operating segments — from 1 January 2009
- IAS 23— Borrowing costs (revised) — from I January 2009.

The directors have assessed the relevance of these amendments and interpretations with respect to the Bank's operations and concluded that they are not relevant to the Bank.

(B) INTEREST INCOME AND EXPENSE

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(C) FEES AND COMMISSION INCOME

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

(D) TRANSLATION OF FOREIGN CURRENCIES

Transactions are recorded on initial recognition in Uganda Shillings, being the currency of the primary economic environment in which the Bank operates (the functional currency). Transactions in foreign currencies during the year are converted into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(E) FINANCIAL ASSETS

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so classifying eliminates or significantly reduces a measurement inconsistency. Derivatives are also categorised as held for trading.

(b) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

(c) Held-to maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

(d) Available-for-sale

Available-for-sale assets are those non-derivative financial assets that are not classified under any of the categories (a) to (c) above.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Loans, advances and receivables and held-to-maturity assets are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the profit and loss account in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Bank's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

(F) IMPAIRMENT OF FINANCIAL ASSETS

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as default or delinquency in interest or principal repayments;
c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
   - adverse changes in the payment status of borrowers in the group; or
   - national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

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

If there is objective evidence that an impairment loss on loans or held-to-maturity assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

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

(ii) Assets carried at fair value

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(G) PROPERTY AND EQUIPMENT

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

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

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

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

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

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

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

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

(I) INCOME TAX

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

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

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

(J) ACCOUNTING FOR LEASES

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

(i) With the Bank as lessee

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

(ii) With the Bank as lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before income tax), which reflects a constant periodic rate of return.

To date, the Bank has not leased out any assets under operating leases.

(K) CASH AND CASH EQUIVALENTS

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

(L) EMPLOYEE BENEFITS

(i) Retirement benefit obligations

The Bank operates a defined contribution retirement benefit scheme for its permanent employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Bank and employees. The Bank and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The Bank's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

(ii) Other entitlements

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

(M) DERIVATIVE FINANCIAL INSTRUMENTS

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

(N) 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 income statement over the period of the borrowings using the effective interest method.

(O) OFFSETTING

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

(P) SALE AND REPURCHASE AGREEMENTS

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

(Q) DIVIDENDS PAYABLE

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) FIDUCIARY ACTIVITIES

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

(S) ACCEPTANCES AND LETTERS OF CREDIT

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

(T) COMPARATIVES

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

3 Financial risk management

(A) STRATEGY IN USING FINANCIAL INSTRUMENTS

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. 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.

Notes

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

The Bank also trades in financial instruments where it takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in equities and bonds and in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

(B) CREDIT RISK

The Bank takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

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 approved 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. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

As part of its credit risk management process, the bank monitors the ratio of non performing loans and advances to total loans & advances in accordance with the BOU financial institutions credit classification and provisioning regulations 2005. As at 31, December 2007, this ratio was 3.6% (2006:5.1%). The bank's target ratio was 5%.

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 he company will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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

(C) CONCENTRATIONS OF RISK

Economic sector risk concentrations within the customer loan and deposit portfolios were as follows:

AT 31 DECEMBER 2007	LOANS AND ADVANCES	CREDIT COMMITMENTS	CUSTOMER DEPOSITS
	%	%	%
AGRICULTURAL	4.9	0.0	1.2
MANUFACTURING	9.5	9.8	7.1
TRADE AND COMMERCE	4.0	3.6	2.9
FINANCIAL SERVICES	1.8	1.0	14.9
TRANSPORT AND UTILITIES	1.2	-	1.0
BUILDING AND CONSTRUCTION	2.6	26.5	4.2
INDIVIDUALS	40.7	22.2	38.6
OTHER	35.3	36.9	30.1
TOTAL	**100.0**	**100.0**	**100.0**
AT 31 DECEMBER 2006			
AGRICULTURAL	4.9	3.7	1.9
MANUFACTURING	7.1	1.2	2.8
TRADE AND COMMERCE	1.6	8.8	3.4
FINANCIAL SERVICES	11.7	0.3	13.3
TRANSPORT AND UTILITIES	1.0	0.5	1.3
BUILDING AND CONSTRUCTION	4.3	18.2	3.9
INDIVIDUALS	28.7	5.0	28.3
OTHER	40.7	62.3	45.1
TOTAL	**100.0**	**100.0**	**100.0**

(D) CURRENCY RISK

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Bank had the following significant foreign currency positions (all amounts expressed in millions of Uganda Shillings):

AT 31 DECEMBER 2007	USD	GBP	EUR	OTHER	TOTAL
ASSETS					
CASH AND BALANCES WITH BANK OF UGANDA	1,274	805	1,361	192	3,632
AMOUNTS DUE FROM OTHER BANKS	978	34	1,919	142	3,073
AMOUNTS DUE FROM GROUP COMPANIES	2	-	-	2	4
LOANS AND ADVANCES TO CUSTOMERS	10,693	1	128	-	10,822
OTHER ASSETS	236	-	1,005		1,242
TOTAL ASSETS	**13,183**	**840**	**4,413**	**336**	**18,772**

(D) CURRENCY RISK (CONTINUED)

LIABILITIES	USD	GBP	EUR	OTHER	TOTAL
CUSTOMER DEPOSITS	10,422	398	4,295	24	15,139
DEPOSITS FROM OTHER BANKS	585	536	403	72	1,596
AMOUNTS DUE TO GROUP COMPANIES	854	-	-	59	913
OTHER LIABILITIES	942	24	27	6	999
TOTAL LIABILITIES	**12,803**	**958**	**4,725**	**161**	**18,647**
NET ON-BALANCE SHEET POSITION	**380**	**(118)**	**(312)**	**175**	**125**
NET OFF-BALANCE SHEET POSITION	**1,135**	**223**	**352**	**-**	**1,710**
OVERALL NET POSITION	**1,515**	**105**	**40**	**175**	**1,835**
AT 31 DECEMBER 2006					
TOTAL ASSETS	17,180	244	7,602	172	25,198
TOTAL LIABILITIES	17,097	286	7,681	110	25,174
NET ON-BALANCE SHEET POSITION	**83**	**(42)**	**79**	**62**	**24**
NET OFF-BALANCE SHEET POSITION	**2,779**	**-**	**4,063**	**365**	**7,207**
OVERALL NET POSITION	**2,862**	**(42)**	**3,984**	**427**	**7,231**

(E) INTEREST RATE RISK

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

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

AT 31 DECEMBER 2007	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	OVER 1 YEAR	NON-INTEREST BEARING	TOTAL
ASSETS						
CASH AND BALANCES WITH BANK OF UGANDA	-	-	-	-	14,497	14,497
AMOUNTS DUE FROM OTHER BANKS	2,658	-	426	-	-	3,084
AMOUNTS DUE FROM GROUP COMPANIES	35	-	-	-	-	35
LOANS AND ADVANCES TO CUSTOMERS	18,814	2,778	5,029	27,987	-	54,608
INVESTMENT SECURITIES HELD TO MATURITY	129	2,633	13,818	500	-	17,080
PROPERTY AND EQUIPMENT	-	-	-	-	5,879	5,879
INTANGIBLE ASSETS	-	-	-	-	1,662	1,662
OTHER ASSETS	-	-	-	-	4,949	4,949
TOTAL ASSETS	**21,636**	**5,411**	**19,273**	**28,487**	**26,987**	**101,794**

(E) INTEREST RATE RISK (CONTINUED)	**UP TO 1 MONTH**	**1-3 MONTHS**	**3-12 MONTHS**	**OVER 1 YEAR**	**NON-INTEREST BEARING**	**TOTAL**
LIABILITIES AND SHAREHOLDERS' FUNDS						
CUSTOMER DEPOSITS	30,722	3,734	19,496	173	24,200	78,325
AMOUNTS DUE TO BANKS	4,714	529	-	-	-	5,243
AMOUNTS DUE TO GROUP COMPANIES	913					913
OTHER BORROWED FUNDS	-	-	145	2,528	-	2,673
OTHER LIABILITIES					1,651	1,651
SHAREHOLDERS' FUNDS					12,989	12,989
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	**36,349**	**4,263**	**19,641**	**2,701**	**38,840**	**101,794**
INTEREST SENSITIVITY GAP	**(14,713)**	**1,148**	**(368)**	**25,786**		
AT 31 DECEMBER 2006						
TOTAL ASSETS	15,592	16,336	18,463	14,040	19,915	84,346
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	38,694	1,158	11,721	4,575	28,198	84,346
INTEREST SENSITIVITY GAP	**(23,102)**	**15,178**	**6,742**	**9,465**		

The effective interest rates by major currency for monetary financial instruments not carried at fair value through profit or loss at 31 December 2007 and 2006 were in the following ranges:

	2007		2006	
	IN SHS	IN US$	IN SHS	IN US$
ASSETS				
AMOUNTS DUE FROM BANKS	-	5%	9%	5%
LOANS AND ADVANCES TO CUSTOMERS	20%	13%	20%	10%
INVESTMENT SECURITIES	10%	-	10%	-
LIABILITIES				
AMOUNTS DUE TO CUSTOMERS	4%	1%	2%	1%
AMOUNTS DUE TO BANKS	8%	-	11%	6%
OTHER BORROWED FUNDS	9%	-	8%	-

(F) LIQUIDITY RISK

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 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 following table analyses assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. All figures are in millions of Uganda Shillings.

AT 31 DECEMBER 2007	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
CASH AND BANK BALANCES WITH BANK OF UGANDA	14,497	-	-	-	-	14,497
AMOUNTS DUE FROM BANKING INSTITUTIONS	2,658	-	426	-	-	3,084
AMOUNTS DUE FROM GROUP COMPANIES	35	-	-	-	-	35
LOANS AND ADVANCES TO CUSTOMERS	18,814	2,778	5,029	22,507	5,480	54,608
INVESTMENT SECURITIES	129	2,633	13,818	-	500	17,080
PROPERTY AND EQUIPMENT	3	1	62	1,191	4,622	5,879
INTANGIBLE ASSETS	1	-	3	1,658	-	1,662
OTHER ASSETS	4,949	-	-	-	-	4,949
TOTAL ASSETS	**41,086**	**5,412**	**19,338**	**25,356**	**10,602**	**101,794**
LIABILITIES AND SHAREHOLDERS' FUNDS						
AMOUNTS DUE TO CUSTOMERS	54,922	3,734	19,496	173	-	78,325
AMOUNTS DUE TO BANKING INSTITUTIONS	4,714	529	-	-	-	5,243
AMOUNTS DUE TO GROUP COMPANIES	913	-	-	-	-	913
OTHER BORROWED FUNDS	-	-	145	1,914	614	2,673
OTHER LIABILITIES	1,374	-	277	-	-	1,651
SHAREHOLDERS' EQUITY					12,989	12,989
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	**61,923**	**4,263**	**19,918**	**2,087**	**13,603**	**101,794**
NET LIQUIDITY GAP	**(20,837)**	**1,149**	**(580)**	**23,269**	**(3,001)**	
AT 31 DECEMBER 2006						
TOTAL ASSETS	30,709	16,337	18,462	13,107	5,731	84,346
TOTAL LIABILITIES AND EQUITY	57,042	1,158	11,973	4,574	9,599	84,346
NET LIQUIDITY GAP	**(26,333)**	**15,179**	**6,489**	**8,533**	**(3,868)**	

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.

(G) CAPITAL MANAGEMENT

The Bank monitors the adequacy of its capital using ratios established by Bank of Uganda (BOU) which ratios are broadly in line with ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by total capital equal to 12% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance-sheet credit related commitments and forwards and options based derivative instruments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital consists of share capital, share premium, prior year retained earnings, plus 50% of the current year retained profit, less goodwill and similar intangible assets, investments in unconsolidated financial subsidiaries and future income tax benefits. Tier 2 capital in addition includes the Bank's revaluation reserves, unencumbered general provisions for bad debts not exceeding 1.25% of risk weighted assets, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

	BALANCE SHEET AMOUNT		**RISK WEIGHTED AMOUNT**	
	2007	2006	2007	2006
	SHS MILLION	SHS MILLION	SHS MILLION	SHS MILLION
BALANCE SHEET ASSETS (NET OF PROVISIONS)				
CASH AND BALANCES WITH BANK OF UGANDA	14,497	10,405	-	-
AMOUNTS DUE FROM OTHER BANKS	3,084	16,975	658	4,272
AMOUNTS DUE FROM GROUP COMPANIES	35	948	35	948
DERIVATIVE FINANCIAL INSTRUMENTS	15	71	15	71
LOANS AND ADVANCES TO CUSTOMERS	54,466	31,519	54,466	31,519
INVESTMENT SECURITIES HELD TO MATURITY	17,080	16,319	-	-
PROPERTY AND EQUIPMENT	5,879	4,695	5,879	4,695
INTANGIBLE ASSETS	1,662	101	1,662	101
CURRENT INCOME TAX ASSETS	1,010	575	-	-
OTHER ASSETS	3,924	2,738	3,924	2,738
TOTAL	**101,652**	**84,346**	**66,639**	**44,344**
OFF-BALANCE SHEET POSITIONS				
CREDIT RELATED COMMITMENTS	22,460	13,885	8,678	3,923
TOTAL RISK-WEIGHTED ASSETS	**124,112**	**98,231**	**75,316**	**48,267**

CAPITAL RATIOS PER FINANCIAL INSTITUTIONS ACT (FIA) 2004

	CAPITAL AMOUNT		**BANK RATIO**		**FIA 2004 MINIMUM RATIO**	
	2007	2006	2007	2006	2007	2006
	SHS MILLION	SHS MILLION	%	%	%	%
CORE CAPITAL (TIER 1)	11,385	8,300	15	17	8	8
TOTAL CAPITAL (TIER 1 + TIER 2)	**11,943**	**8,681**	**16**	**18**	**12**	**12**

(H) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

4 Critical accounting estimates and judgements in applying accounting policies

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

(A) IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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

(B) FAIR VALUE OF DERIVATIVES

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

(C) HELD-TO-MATURITY FINANCIAL ASSETS

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such assets to maturity. If the Bank fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity assets is tainted, the fair value would increase by Shs 791 million, with a corresponding entry in the fair value reserve in shareholders' equity.

5 Interest income

	2007	2006
	SHS MILLION	SHS MILLION
LOANS AND ADVANCES	7,418	5,059
GOVERNMENT SECURITIES	1,785	1,857
CASH AND SHORT TERM FUNDS	783	754
TOTAL	**9,986**	**7,670**

6 Interest expense

	2007	2006
	SHS MILLION	SHS MILLION
CUSTOMER DEPOSITS	2,410	1,658
DEPOSITS BY BANKS	148	105
BORROWED FUNDS	236	231
OTHER	12	4
TOTAL	**2,806**	**1,998**

7 Operating expenses

The following items are included within operating expenses:	2007	2006
	SHS MILLION	SHS MILLION
EMPLOYEE BENEFITS EXPENSE (NOTE 8)	4,629	4,042
DEPRECIATION (NOTE 15)	649	512
(PROFIT)/LOSS ON SALE OF PROPERTY AND EQUIPMENT	(14)	(2)
SOFTWARE COSTS (NOTE 16)	50	50
OPERATING LEASE RENTALS	25	25
AUDITORS' REMUNERATION	43	40

8 Employee benefits expense

The following items are included within employee benefits expense:	2007	2006
	SHS MILLION	SHS MILLION
RETIREMENT BENEFIT COSTS		
DEFINED CONTRIBUTION SCHEME	68	160
NATIONAL SOCIAL SECURITY FUND	242	199

Notes

9 Income tax expense

	2007	2006
CURRENT INCOME TAX (NOTE 17)	262	232
DEFERRED INCOME TAX (NOTE 18)	140	152
TOTAL	**402**	**384**

The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2007	2006
	SHS MILLION	SHS MILLION
PROFIT BEFORE INCOME TAX	**2,494**	**2,220**
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2006: 30%)	748	666
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(1,534)	(773)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	473	208
DEFERRED INCOME TAX ADJUSTMENTS	453	152
OTHER (FINAL TAX ON GOVERNMENT PAPER AT 15%)	262	131
INCOME TAX EXPENSE	**402**	**384**

10 Cash and balances with Bank of Uganda

	2007	2006
	SHS MILLION	SHS MILLION
CASH IN HAND	7,514	3,567
BALANCES WITH BANK OF UGANDA	6,983	6,838
TOTAL	**14,497**	**10,405**

11 Amounts due from other banks

	2007	2006
	SHS MILLION	SHS MILLION
ITEMS IN COURSE OF COLLECTION	935	5,841
PLACEMENTS	2,149	11,134
INCLUDED IN CASH AND CASH EQUIVALENTS (NOTE 28)	**3,084**	**16,975**

12 Derivatives at fair value through profit or loss

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

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

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

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

	2007	2006
	SHS MILLION	SHS MILLION
CURRENCY FORWARDS	15	84
CURRENCY SWAPS	-	(13)
TOTAL	**15**	**71**

The Bank has not designated at initial recognition any financial liability as at fair value through profit or loss.

13 Loans and advances to customers

	2007	2006
	SHS MILLION	SHS MILLION
OVERDRAFTS	15,410	10,967
DISCOUNTED BILLS	307	103
LOANS	39,685	21,077
GROSS LOANS AND ADVANCES	**55,402**	**32,147**
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
INDIVIDUALLY ASSESSED	(424)	(589)
COLLECTIVELY ASSESSED	(370)	(39)
TOTAL	**54,608**	**31,519**

Movements in provisions for impairment of loans and advances are as follows:

	INDIVIDUALLY ASSESSED	COLLECTIVELY ASSESSED
	SHS MILLION	SHS MILLION
YEAR ENDED 31 DECEMBER 2006		
AT START OF YEAR	**364**	**136**
PROVISION FOR LOAN IMPAIRMENT	548	-
AMOUNTS RECOVERED DURING YEAR	(27)	(97)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(296)	-
AT END OF YEAR	**589**	**39**
YEAR ENDED 31 DECEMBER 2007		
AT START OF YEAR	**589**	**39**
PROVISION FOR LOAN IMPAIRMENT	1,017	331
AMOUNTS RECOVERED DURING YEAR	(406)	-
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(776)	-
AT END OF YEAR	**424**	**370**

All loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2007 was Shs 472 million (2006: Shs 1,656 million).

Included within loans and advances is lending to one set of two related borrowers with a combined value of Shs 3,520 million which exceeds 25% of the core capital of the Bank as at 31 December 2007.

14 Investment securities

	2007	2006
	SHS MILLION	SHS MILLION
SECURITIES HELD-TO-MATURITY		
GOVERNMENT SECURITIES – AT AMORTISED COST		
MATURING WITHIN 90 DAYS OF THE DATE OF ACQUISITION	2,762	2,966
MATURING AFTER 90 DAYS OF THE DATE OF ACQUISITION	13,816	12,851
LISTED DEBT SECURITIES – AT AMORTISED COST	502	502
TOTAL INVESTMENT SECURITIES	**17,080**	**16,319**

15 Property and equipment

	BUILDINGS & FREEHOLD LAND SHS MILLION	MOTOR VEHICLES SHS MILLION	FIXTURES, FITTINGS & EQUIPMENT SHS MILLION	WORK IN PROGRESS (WIP) SHS MILLION	TOTAL SHS MILLION
AT 1 JANUARY 2006					
COST	1,931	211	3,914	46	6,102
ACCUMULATED DEPRECIATION	(36)	(101)	(2,546)	-	(2,683)
NET BOOK AMOUNT	**1,895**	**110**	**1,368**	**46**	**3,419**
YEAR ENDED 31 DECEMBER 2006					
OPENING NET BOOK AMOUNT	1,895	110	1,368	46	3,419
ADDITIONS	-	30	374	2,621	3,025
TRANSFERS	(1,231)	-	-	-	(1,231)
DISPOSALS	-	(15)	(64)	-	(79)
WRITE-OFFS	-	-	(523)	-	(523)
DEPRECIATION CHARGE	(18)	(55)	(439)	-	(512)
DEPRECIATION ON DISPOSALS	12	15	54	-	81
CLOSING NET BOOK AMOUNT	**658**	**85**	**1,285**	**2,667**	**4,695**
AT 31 DECEMBER 2006					
COST	700	226	3,701	2,667	7,294
ACCUMULATED DEPRECIATION	(42)	(141)	(2,416)	-	(2,599)
NET BOOK AMOUNT	**658**	**85**	**1,285**	**2,667**	**4,695**
YEAR ENDED 31 DECEMBER 2007					
OPENING NET BOOK AMOUNT	658	85	1,285	2,667	4,695
ADDITIONS	130	38	1,628	136	1,932
TRANSFERS	2,591	-	34	(2,667)	(42)
DISPOSALS	-	-	(57)	-	(57)
DEPRECIATION CHARGE	(68)	(48)	(533)	-	(649)
CLOSING NET BOOK AMOUNT	**3,311**	**75**	**2,357**	**136**	**5,879**
AT 31 DECEMBER 2007					
COST	3,421	238	4,437	136	8,232
ACCUMULATED DEPRECIATION	(110)	(163)	(2,080)	-	(2,353)
NET BOOK AMOUNT	**3,311**	**75**	**2,357**	**136**	**5,879**

16 Intangible assets

COMPUTER SOFTWARE LICENCES

	2007	2006
	SHS MILLION	SHS MILLION
AT START OF YEAR	**101**	**62**
ADDITIONS	1,569	89
TRANSFERS	42	-
AMORTISATION	(50)	(50)
AT END OF YEAR	**1,662**	**101**
AT 31 DECEMBER		
COST	2,434	822
ACCUMULATED AMORTISATION	(772)	(721)
NET BOOK AMOUNT	**1,662**	**101**

From the start of 2007, the Bank changed its accounting policy for amortising software licences by increasing the useful life from three to five years, so as to reflect more accurately the useful life of the software and comply with the Group amortisation policy. The policy has been applied prospectively in accordance with IAS 8. Accordingly, the adoption of the new policy has no effect on prior years.

The effect on the current year is to increase the carrying amount of intangible assets and reduce depreciation expense by Shs 23 million; and reduce the tax expense and deferred tax provision by Shs 7 million.

17 Current income tax assets

	2007	2006
	SHS MILLION	SHS MILLION
AT START OF YEAR	**575**	**374**
INCOME STATEMENT (CREDIT)/CHARGE (NOTE 9)	(262)	(232)
PAYMENTS DURING THE YEAR	697	433
AT END OF YEAR	**1,010**	**575**

18 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2006: 30%). The movement on the deferred income tax account is as follows:

	2007	2006
	SHS MILLION	SHS MILLION
AT START OF YEAR	**138**	**(14)**
INCOME STATEMENT (CREDIT)/CHARGE (NOTE 9)	140	152
AT END OF YEAR	**278**	**138**

The deferred income tax asset, deferred income tax charge/(credit) in the profit and loss account, and deferred income tax charge/(credit) in equity are attributable to the following items:

	1 JANUARY 2007	CHARGED/ (CREDITED) TO P/L	31 DECEMBER 2007
	SHS MILLION	SHS MILLION	SHS MILLION
DEFERRED INCOME TAX LIABILITIES			
ACCELERATED TAX DEPRECIATION	193	508	701
UNREALISED TRANSLATION DIFFERENCES	10	(10)	-
TOTAL	**203**	**498**	**701**
DEFERRED INCOME TAX ASSETS			
TAX LOSSES CARRIED FORWARD	-	313	313
PROVISIONS FOR LOAN IMPAIRMENT	-	110	110
OTHER PROVISIONS	65	(65)	-
TOTAL	**65**	**358**	**423**
NET DEFERRED INCOME TAX ASSET	**138**	**140**	**278**

19 Other assets

	2007	2006
	SHS MILLION	SHS MILLION
PREPAID OPERATING LEASE RENTALS	1,175	1,200
ACCOUNTS RECEIVABLE AND PRE-PAYMENTS	1,253	776
ITEMS IN TRANSIT	1,138	14
STATIONERY STOCKS	103	73
OTHER	255	675
TOTAL	**3,924**	**2,738**

20 Customer deposits

	2007	2006
	SHS MILLION	SHS MILLION
CURRENT AND DEMAND DEPOSITS	32,788	26,749
SAVINGS ACCOUNTS	16,594	11,682
FIXED DEPOSIT ACCOUNTS	27,113	16,871
MARGIN DEPOSITS	1,830	5,683
TOTAL	**78,325**	**60,985**

21 Deposits from other banks

	2007	2006
	SHS MILLION	SHS MILLION
OVERNIGHT BORROWING	-	3,500
ITEMS IN COURSE OF COLLECTION	1,594	2,880
TERM DEPOSITS	3,649	963
TOTAL	**5,243**	**7,343**

22 Other borrowed funds

	2007	2006
	SHS MILLION	SHS MILLION
EIB - UGANDA APEX PRIVATE SECTOR LOAN SCHEME	2,175	2,549
EIB - UGANDA MICROFINANCE SCHEME	498	527
TOTAL	**2,673**	**3,076**

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

The EIB – Uganda Microfinance Scheme relates to a line of credit granted to the Bank to on-lend to microfinance institutions in Uganda. These funds attract a fixed rate of interest of 8.6% per annum (2006: 8.6%).

23 Retirement benefit obligations

Prior to 2006, the Bank had a final salary defined benefit plan which was unfunded and was valued using the projected unit credit method. This scheme was converted into a defined contribution plan in 2006. The amount reflected represents the outstanding obligations payable which were subsequently paid in 2007.

24 Other liabilities

	2007	2006
	SHS MILLION	SHS MILLION
BILLS PAYABLE	305	1,025
CREDITORS	518	1,254
ACCRUALS	541	411
OTHER	9	-
TOTAL	**1,373**	**2,690**

25 Share capital

	NUMBER OF SHARES (THOUSANDS)	ORDINARY SHARES	SHARE PREMIUM
		SHS MILLION	SHS MILLION
BALANCE AT 1 JANUARY 2006	4,001	4,001	-
BALANCE AT 1 JANUARY 2007	4,001	4,001	-
ISSUE OF SHARES	541	541	757
BALANCE AT 31 DECEMBER 2007	**4,542**	**4,542**	**757**

The total authorised number of ordinary shares is 5 million (2006: 5 million) with a par value of Shs 1,000 per share.

On 30 March 2007 the Board approved a rights issue of Shs 1,297 million in which three of the four shareholders participated. A total of 540,818 shares were issued at a price of Shs 2,399 per share. A total of 484,362 shares were paid up by year end.

26 Regulatory reserves

The regulatory reserve represents transfers from retained earnings to meet requirements under the Financial Institutions Regulations. These reserves are not tax distributable.

	2007	2006
	SHS MILLION	SHS MILLION
AT START OF YEAR	**381**	**21**
TRANSFERS FROM RETAINED EARNINGS	177	360
AT END OF YEAR	**558**	**381**

27 Off balance sheet financial instruments, contingent liabilities and commitments

In common with other Banks, 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 the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the balance sheet.

	2007	2006
	SHS MILLION	SHS MILLION
CONTINGENT LIABILITIES		
ACCEPTANCES AND LETTERS OF CREDIT	6,561	5,111
GUARANTEE AND PERFORMANCE BONDS	12,265	4,738
TOTAL	**18,826**	**9,849**

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

OTHER COMMITMENTS

	2007	2006
	SHS MILLION	SHS MILLION
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	3,634	4,036

Nature of commitments

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

Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2007. No provision has been made as professional advice indicates that it is unlikely that any additional significant loss will crystallise.

28 Analysis of cash and cash equivalents as shown in the cash flow statement

	2007	2006
	SHS MILLION	SHS MILLION
CASH AND BALANCES WITH BANK OF UGANDA (NOTE 10)	14,497	10,405
LESS: CASH RESERVE REQUIREMENT (SEE BELOW)	(8,182)	(6,916)
GOVERNMENT SECURITIES (NOTE 14)	2,762	2,966
PLACEMENTS WITH OTHER BANKS (NOTE 11)	3,084	16,975
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 29)	35	948
TOTAL	**12,196**	**24,378**

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

Banks are required to maintain a prescribed minimum cash balance with the Bank of Uganda that is not available to finance the Bank's day-to-day activities. The amount is determined as 9.5% of the average outstanding customer deposits over a cash reserve cycle period of two weeks.

29 Related party transactions

The Bank's shareholding is as follows:

	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA - KENYA	48.17%	KENYA
AUREOS EAST AFRICA FUND LLC	21.82%	MAURITIUS
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	19.54%	NETHERLANDS
CENTRAL HOLDINGS UGANDA LTD.	10.47%	UGANDA

There are other companies which are related to the Bank through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placings of foreign currencies are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are shown below:

	2007	2006
	SHS MILLION	SHS MILLION
AMOUNTS DUE FROM GROUP COMPANIES	35	948
INTEREST INCOME EARNED ON THE ABOVE	-	-
AMOUNTS DUE TO GROUP COMPANIES	913	54
INTEREST EXPENSE INCURRED ON THE ABOVE	-	-

Advances to customers at 31 December 2007 include loans to directors, loans to companies controlled by directors or their families, and loans to employees as follows:

	2007	2006
	SHS MILLION	SHS MILLION
LOANS TO DIRECTORS		
AT START OF YEAR	**161**	**147**
ADVANCED DURING THE YEAR	346	105
REPAID DURING THE YEAR	(68)	(91)
TRANSFERS TO THIRD PARTY LOANS	(105)	-
AT END OF YEAR	**334**	**161**

At 31 December 2007, advances to employees amounted to Shs 1,157 (2006: Shs 585).

All the above loans were given on interest rates ranging between 3% and 19% (2006: 3% and 19%) and were all performing as at 31 December 2007 and 2006.

	2007	2006
	SHS MILLION	SHS MILLION
INTEREST INCOME EARNED	**55**	**50**

No provisions have been recognised in respect of loans given to related parties (2006: nil).

	2007	2006
	SHS MILLION	SHS MILLION
DEPOSITS BY DIRECTORS		
AT START OF YEAR	**26**	**155**
RECEIVED DURING THE YEAR	22	2
REPAID DURING THE YEAR	(9)	(131)
TRANSFERS TO THIRD PARTY DEPOSITS	(2)	-
AT END OF YEAR	37	26
INTEREST EXPENSE INCURRED	-	-
KEY MANAGEMENT COMPENSATION		
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	931	861
OTHER LONG-TERM BENEFITS	25	82
TOTAL	**956**	**943**
DIRECTORS' REMUNERATION		
FEES FOR SERVICES AS A DIRECTOR	31	21
OTHER EMOLUMENTS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	508	505
TOTAL	**539**	**526**

30 Dividends

At the annual general meeting held on 16 April 2008, a dividend of 15% of ordinary share capital amounting to Shs 681 million was proposed. During the year, no interim dividends were paid in respect of the year ended 31 December 2007 (2006: Nil).

The payment of dividends is subject to withholding tax at 15% or the rate specified under an applicable double tax agreement.

Personnal notes

Giant Lobelia. © M & C Denis-Huaut

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ARUA BRANCH

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