UGANDA

FINANCIAL STATEMENTS 2018

BANK OF AFRICA
Groupe BMCE BANK

Contents

Opening date: October 2006

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

Capital as at 31/12/2018

Uganda Shillings (UGX) 46.775 billion

Board of Directors as at 31/12/2018

John CARRUTHERS, Chairman
Amine BOUABID
Abdelkabir BENNANI
Gertrude K. BYARUHANGA
Arthur ISIKO
Mohan Musisi KIWANUKA
Bernard R. MAGULU
Cornelia Paulina GOENSE
Ghali LAHLOU

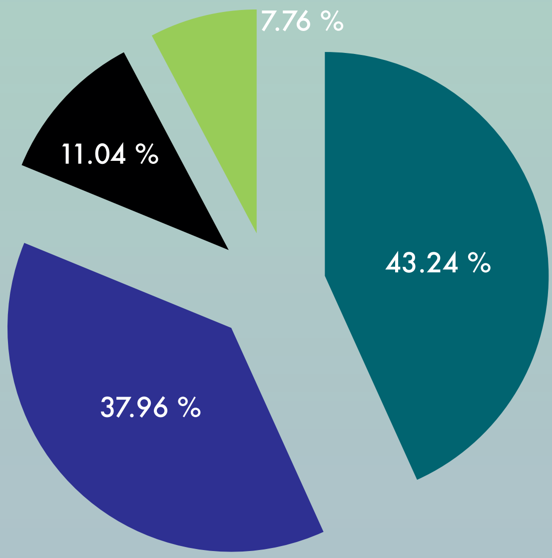
Auditor

KPMG

Registered office

BANK OF AFRICA House
Plot 45, Jinja Road
P.O. Box 2750 - Kampala - UGANDA
Tél. : (256) 414 302001
Email : feedback@boauganda.com
SWIFT : AFRIUGKA

Principal Shareholders as at 31/12/2018



BANK OF AFRICA - KENYA
AFH-OCÉAN INDIEN
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)
CENTRAL HOLDINGS Ltd.

www.boauganda.com

UGANDA

Key figures 2018 (in UGX million)

Activity	2017	2018	Variation
Deposits	544,320	568,867	4.5 %
Loans	320,377	344,144	7.4 %
Number of branches	35	35	0.0 %
Structure			
Total Assets	756,367	798,930	5.6 %
Shareholders' equity	107,131	111,853	4.4 %
Number of employees	421	448	6.4 %
Income			
Net operating income	85,473	86,275	0.9 %
Operating expenses (includind depreciation and amortization)	61,142	60,815	-0.5 %
Gross operating profit	24,333	25,459	4.6 %
Cost of risk in value	-3,455	-5,635	63.1 %
Net income	16,673	15,148	-9.1 %
Operating ratio	71.5 %	70.5 %	
Cost of risk	1.1 %	1.7 %	
Return on Assets (ROA)	2.3 %	1.9 %	
Return on Equity (ROE)	16.4 %	13.8 %	
Capital Adequacy Ratio			
Tier 1	69,062	77,630	
Tier 2	3,275	3,739	
Risk Weighted Asset (RWA)	465,742	519,791	
Tier 1 + Tier 2 / RWA	15.5 %	15.6 %	

+ 5,6 %
Total assets

Deposits
544,320 UGX million
2017
568,867 UGX million
2018

Loans
+ 7.4 %

Net operating income
+ 0.9 %

Financial analysis

Preliminary estimates indicate that Uganda's economy expanded by 5.8% continuing an upward trajectory from the 3.9% and 2.5% experienced in 2017 and 2016 respectively. The services sector enjoyed the fastest growth with 7.3% compared to 6.2% of industry and 3.2% in agriculture. The pickup in economic growth momentum was supported by favorable weather conditions and firm control on pests and diseases supported growth in food crops as shown by the bumper harvests in crops such as maize, beans and sorghum, along with a slow but steady recovery in private sector due to a booming consumer demand that fanned output.

Inflation rates remained low in 2018 much like previous year to record three-year lows due to favourable weather conditions supported by relative stability of the UGX to the USD. The Central Bank, as a result, to boost private sector credit and economic growth, maintained a largely expansionary monetary policy reflected in a low and flat Central Bank Rate. Inflation is expected to remain subdued in the medium term.

The shilling was relatively stable with an annual depreciation of less than 2.5% against USD much like the 2.7% depreciation against EUR. Due to the increasing trade deficit, depreciation pressures are expected to continue. The GDP growth prospects of 2019 are above 5% driven by continued private sector recovery largely driven by infrastructure investments and sustained good weather conditions for the agricultural sector.

The Bank recorded a 5.6% growth in total assets majorly supported by a 7.4% growth in loans, which account for 43.1% of the Bank's total assets. The growth in assets was funded largely by customer deposits which enjoyed a 4.5% growth.

Total operating income registered a dismal 0.9% growth attributed to suppressed yields on government paper despite the balance sheet growth realized. This notwithstanding, non-interest income enjoyed a 19.7% growth easing the pressure on net interest income. Overall, the Bank remained profitable with even better prospects in 2019.

Significant performances (in UGX billion)

Loans

344.1 **+7.4 %**

2018	344.1
2017	320.4

Net Operating Income

25.4 **+4.6 %**

2018	25.4
2017	24.3

Stock information (in thousands of UGX)

	2016	2017	2018	CAGR*
Earning per share	0.3	0.4	0.3	207.9 %
Shareholders' equity per share	2.1	2.3	2.4	9.8 %
Net dividend per share	0.1	0.2	0.2	18.2 %

(*) Average annual growth rate

Staff recreation Day

Highlights

May

• Participation of the Digital Workshop for English-Speaking Countries headed by the CEO of the Bank Mr. Amine Bouabid. The meeting also brought on board Directors and staff from the Group, participants from BOA-UGANDA, BOA-KENYA, BOA-GHANA, BOA-TANZANIA.

June

• In line with the Bank's focus on developing SMEs, Bank of Africa senior management interacted with over 400 SME owners across the country in specialized Business clinics.

August

• Launch of the BOA ''Elite Banking'' and revamped Home Loans with the presence of The Honorable Minister of State for Finance, Planning and Economic Development, Mr. David Bahati.

• Signing of a partnership with World Remit a global payments and money transfer service.

September

• Participation in the 2018 BANK OF AFRICA Director's Meetings, in Tangier, Morocco.

November

• Participation in the MTN Marathon with support to a noble cause of improving maternal health in Uganda.

December

• Held 2019 Customers appreciation week.

• As past of the service week gave back to communities served by BOA through CSR activities.

''Tots & Teens Banking day

''Elite banking'' launch

MTN marathon participation

Bankers gala

''Word Remit'' launch

Registered Office

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

Company Secretary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MASAKA BRANCH
Plot 7, Birch Avenue
Masaka

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

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

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

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

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

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

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

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

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

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

RUBIRIZI BRANCH
Mbarara-Kasese Highway
P. O. Box 1163 Mbarara

The Bank also has a mobile banking vehicle covering various districts in Northern Uganda.

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of BANK OF AFRICA - UGANDA Limited ("the Bank"). The financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act of Uganda (CAP 110) and the Ugandan Financial Institutions Act, 2004 (as amended in 2016).

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.

Results and dividend

The Bank's profit for the year ended 31 December 2018 was Shs 15,148 million (2017: profit of Shs 16,673 million) as shown in the statement of comprehensive income (Page 10).

The directors recommend that a dividend of Shs 181.36 per ordinary share be paid for the year ended

31 December 2018 (2017: 178.24). The total dividends for the year will be Shs 8,483 million (2017: Shs 8,337 million).

Directors

Mr. John CARRUTHERS	Chairman
Mr. Amine BOUABID	Non-Executive Director
Mr. Abdelkabir BENNANI	Non-Executive Director
Mr. Mohan M. KIWANUKA	Non-Executive Director
Mr. Ghali LAHLOU	Non-Executive Director (Appointed 31 May 2018)
Mr. George William EGADDU	Non-Executive Director (Appointed 15 March 2019)
Ms. Cornelia Paulina GOENSE	Non-Executive Director
Ms. Gertrude K. BYARUHANGA	Non-Executive Director
Mr. Arthur ISIKO	Managing Director
Mr. Bernard R. MAGULU	Executive Director

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.

Board of Directors

The Bank has a broad-based board of directors. As at 31 December 2018, the Board of Directors consisted of 8 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 2018 was as follows:

Committee	Chairperson	Membership	Meeting frequency
Risk Management	Non-executive director	2 non-executive 2 executive	Quarterly
Asset and Liability Management	Non-executive director	2 non-executive 1 executive	Quarterly
Compensation	Non-executive director	2 non-executive	Quarterly
Audit	Non-executive director	3 non-executive	Quarterly
Credit Committee	Non-executive director 1 executive	3 non-executive Quarterly	

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

Auditors

The auditors, KPMG, being eligible for reappointment have expressed their willingness to continue in office in accordance with the terms of Section 167 (2) of the Companies Act of Uganda and section 62 (1) of the Financial Institution Act.

Approval of the Financial Statements

The Financial Statements were approved at the meeting of the directors held on 6th February 2019.

By order of the Board

REHMAH NABUNYA
SECRETARY

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) Limited ("the Bank") set out on pages 10 to 62, comprising the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in equity and cash flows 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 auditors are 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 Limited, were approved by the board of directors on 6th February 2019 and were signed on its behalf by:

John CARRUTHERS	Mohan M. KIWANUKA	Arthur ISIKO
Director	Director	Director

Independent Auditors' Reports

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BANK OF AFRICA - UGANDA Limited ("the Bank"), which comprise the statement of financial position as at 31 December 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information as set out on pages 10 to 62.

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 2018, and of its financial performance and its cash flows 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 (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. 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 the report below is not intended to constitute separate opinions on these matters.

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

Impairment of loans and advances to customers.

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

- Note 17
- Note 2.6 (b) – summary of significant accounting policies
- Note 3 – Financial risk management

On 1 January 2018, the Bank adopted IFRS 9, resulting in impairment charges being recognised when losses are expected rather than when they are incurred. Impairment of 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. Management has disclosed information regarding the transitional effect of this new and complex standard in note 2.6(b) and accounting policy note 3(e).

Subjective estimate

During the year credit loss provisions increased from Ushs 6,407 Mn as at 31 December 2017 to Ushs 10,507Mn as at 31 December 2018. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's implementation of IFRS 9 are:

Economic scenarios

IFRS 9 requires the Bank to measure Expected Credit Loss (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 and the associated impact on ECL.

Significant Increase in Credit Risk ('SICR')

For the loans to customers, the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation

Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans to customers and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter;

– We assessed the modelling techniques and methodology against the requirements of IFRS 9.

– We assessed the design, implementation and tested the operating effectiveness of relevant controls over the:

- Data used to determine the impairment provision, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model;
- Expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.

– We assessed and tested the material modelling assumptions as well as overlays with a focus on the:

- Basis for and data used to determine overlays;
- Sensitivity of the provisions to changes in modelling assumptions.

– We examined a sample of exposures and performed procedures to evaluate the:

- Timely identification of exposures with a significant deterioration in credit quality.
- Expected loss calculation for exposures assessed

as these criteria determine whether a 12-month or lifetime expected credit loss is assessed.

Model estimations

Inherently, judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL). The PD and EAD models used in the Stage 1 and Stage 2 loans are key drivers of the Bank's ECL results and are therefore most significant judgmental aspect of the Bank's ECL modelling approach.

For loans that are credit impaired (defaulted loans), management impairment is determined based by comparing the carrying amount with the estimate of the future cash flows discounted using the contractual rate. Management assumes that the contractual rate to approximate the original effective interest rate. Management assumes cash flows from both the operations of the customers and discounted collateral values.

Qualitative adjustments (management overlays)

Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts.

Disclosure quality

The disclosures regarding the Bank's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.

Management has provided further information about the loans and advances to customers and off balance sheet instruments in Note17 to the financial statements.

on an individual basis.

– Challenging management's assumptions on projected cash flows when assessing stage 3 impairment by evaluating the assumptions against current economic performance, assumptions most commonly used in the Banking industry, and also comparison with external evidence.

– We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).

– We assessed the accuracy of the disclosures in the financial statements.

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

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 2019

Statement of comprehensive income

	NOTE	2018 SHS M	2017 KSHS 000
INTEREST INCOME	5	68,276	72,898
INTEREST EXPENSE	6	(11,744)	(12,281)
NET INTEREST INCOME		56,532	60,617
FEE AND COMMISSION INCOME	7	26,303	22,390
FEE AND COMMISSION EXPENSE	8	(6,377)	(5,333)
NET FEE AND COMMISSION INCOME		19,926	17,057
NET FOREIGN EXCHANGE GAINS	9	7,600	6,116
OTHER OPERATING INCOME	10	2,217	1,683
NET OTHER OPERATING INCOME		9,817	7,799
REVENUE		86,275	85,473
IMPAIRMENT LOSSES ON FINANCIAL ASSETS	17 (B)	(5,635)	(3,455)
OPERATING EXPENSES	11	(60,816)	(61,140)
PROFIT BEFORE INCOME TAX		19,824	20,878
INCOME TAX EXPENSE	13	(4,676)	(4,205)
PROFIT FOR THE YEAR		15,148	16,673
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		15,148	16,673
EARNINGS PER SHARE - BASIC AND DILUTED (SHS PER SHARE)	30	323.85	356.45

The notes on pages 21 to 63 are an integral part of these financial statements.

Statement of Financial Position

	NOTE	2018 SHS M	2017 KSHS 000
ASSETS			
CASH AND BALANCES WITH BANK OF UGANDA	14	104,712	128,548
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	15	66,592	63,291
DEPOSITS DUE FROM GROUP COMPANIES	32 (A)	48,571	26,184
DERIVATIVES HELD FOR RISK MANAGEMENT	16 (B)	-	37
GOVERNMENT SECURITIES	16 (A)	175,652	163,405
LOANS AND ADVANCES TO CUSTOMERS	17 (A)	344,139	320,375
OTHER ASSETS	18	19,591	12,749
PROPERTY AND EQUIPMENT	19	13,072	10,572
OPERATING LEASE PREPAYMENTS	20	2,956	3,003
INTANGIBLE ASSETS	21	4,737	9,781
DEFERRED INCOME TAX ASSET	26	18,901	18,421
TOTAL ASSETS		798,923	756,366
LIABILITIES			
CUSTOMER DEPOSITS	22	568,867	544,320
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	23	39,435	19,618
AMOUNTS DUE TO GROUP COMPANIES	32 (B)	58,403	62,989
OTHER BORROWINGS	24	884	1,226
CURRENT INCOME TAX LIABILITIES	13 (B)	1,531	1,133
OTHER LIABILITIES	25	17,951	19,949
TOTAL LIABILITIES		687,071	649,235
EQUITY			
SHARE CAPITAL	27	46,775	46,775
SHARE PREMIUM		23,614	23,614
PROPOSED DIVIDENDS	31	8,483	8,337
RETAINED EARNINGS		32,980	28,405
TOTAL EQUITY		111,852	107,131
TOTAL EQUITY AND LIABILITIES		798,923	756,366

The financial statements on pages 21 to 63 were approved for issue by the Board of Directors on 6th February 2019 and signed on its behalf by:

John CARRUTHERS
Chairman

Arthur ISIKO
Director

Mohan M. KIWANUKA
Director

Rehmah MABUNYA
Secretary

Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2017	NOTES	SHARE CAPITAL SHS M	SHARE PREMIUM SHS M	REGULATORY RESERVE SHS M	PROPOSED DIVIDENDS SHS M	RETAINED EARNINGS SHS M	TOTAL SHS M
AT 1 JANUARY 2017		46,775	23,614	-	6,072	20,069	96,530
COMPREHENSIVE INCOME:							
PROFIT FOR THE YEAR		-	-	-	-	16,673	16,673
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-	-	16,673	16,673
TRANSACTIONS WITH OWNERS:							
PROPOSED DIVIDENDS		-	-	-	8,337	(8,337)	-
DIVIDENDS PAID		-	-	-	(6,072)	-	(6,072)
AT 31 DECEMBER 2017	27	46,775	23,614	-	8,337	28,405	107,131
YEAR ENDED 31 DECEMBER 2018							
OPENING AT 1 JANUARY 2018	27	46,775	23,614	-	8,337	28,405	107,131
INITIAL APPLICATION OF IFRS 9 NET OF TAX	-	-	-	-	(2,090)	(2,090)	
RESTATED BALANCE AS AT 1 JANUARY 2018		46,775	23,614	-	8,337	26,315	105,041
COMPREHENSIVE INCOME:							
PROFIT FOR THE YEAR		-	-	-	-	15,148	15,148
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-	-	15,148	15,148
TRANSACTIONS WITH OWNERS:							
PROPOSED DIVIDENDS	31	-	-	-	8,483	(8,483)	-
DIVIDENDS PAID		-	-	-	(8,337)	-	(8,337)
AT 31 DECEMBER 2018	27	46,775	23,614	-	8,483	32,980	111,852

Statement of Cash Flows

	VOTES	2018 SHS M	2017 SHS M
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		67,976	85,419
INTEREST PAYMENTS		(11,946)	(12,597)
NET FEE AND COMMISSION RECEIPTS		19,926	17,057
OTHER INCOME RECEIVED		10,212	7,628
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		864	679
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(52,795)	(58,245)
INCOME TAX PAID	13	(3,863)	(6,266)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		30,374	33,675
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(32,034)	(30,917)
- CASH RESERVE REQUIREMENT		(1,922)	(2,305)
- OTHER ASSETS		(6,900)	(1,282)
- CUSTOMER DEPOSITS		24,752	64,285
- DEPOSITS DUE TO OTHER BANKS		19,728	(12,522)
- AMOUNTS DUE TO GROUP COMPANIES		(4,584)	9,623
- OTHER LIABILITIES		(6,750)	5,723
- GOVERNMENT SECURITIES		(12,409)	6,514
NET CASH GENERATED FROM OPERATING ACTIVITIES		10,254	72,794
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	19	(5,219)	(1,679)
PURCHASE OF INTANGIBLE ASSETS	21	3,650	(7,143)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		-	237
NET CASH UTILIZED IN INVESTING ACTIVITIES		(1,569	(8,585)
CASH FLOWS FROM FINANCING ACTIVITIES			
DIVIDENDS PAID		(8,337	(6,072)
REPAYMENT OF BORROWED FUNDS		(347	(6,513)
NET CASH UTILIZED IN FINANCING ACTIVITIES		(8,684	(12,585)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1	51,624
CASH AND CASH EQUIVALENTS AT START OF YEAR		196,873	145,249
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	196,874	196,873

The notes set out on pages 21 to 63 form an integral part of these financial statements.

Notes

1. Reporting Entity

BANK OF AFRICA (''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 Cap (110) and Financial Institutions Act, 2004 as (amended 2016). The Bank presents its Statement of Financial Position broadly in order of liquidity.

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 18,901 million (2017: Shs 18,421 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 in into the Expected Credit Losses (ECL) measurement model, including incorporation of forward-looking information, establishing the criteria for determining whether credit risk on a financial asset has increase 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.

2.5. Adoption of new and revised standards

a. 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 2018: 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 2018 are summarized below:

New amendments or interpretation	Effective date
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments	
• Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	
• Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	
• Transfers of Investment property (Amendments to IAS 40)	

Further details on the new standards, IFRS 9 illustrated under notes 2.6 (b).

IFRS 15: Revenue from Contracts with Customers

The standard was adopted effective 1 January 2018 and the bank applied the standard during the year and has assessed its impact on the various contracts and the related recognition of revenue to be in line with the requirements of the standard.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of the standard was therefore limited to the new disclosure requirements.

ii. New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018

At the date of authorization of financial statements of BANK OF AFRICA - UGANDA Limited for the year ended 31 December 2018, the following Standard and Interpretations were in issue but not yet effective;

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 16 Leases	
• IFRIC 23 Uncertainty over Income Tax Treatments	
• Prepayment Features with Negative Compensation (Amendments to IFRS 9)	
• Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)	1 January 2019
• Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	
• IFRS 17 Insurance contracts	

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

IAS 19, IFRS 17, IAS 28, are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a Right Of Use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 have not changed substantially in terms of this standard as a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17. In addition, the standard requires lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

From management's assessment, the adoption of IFRS 16 is expected to affect the financial statements of the bank as summarised in the table below;

	Implication	Financial Impact SHS M
1. Right of Use Asset	Increase in assets	17,187
2. Lease Liability	Increase in liabilities	17,187
3. Regulatory Capital	Reduction in capital adequacy ratios	0.5%

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15.

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.

Management is still assessing the impact of the new standard on the financial statements of the bank.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

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 is not expected to have a significant impact on the financial statements of the bank.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

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.

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.

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 adopted the standard on 1 January 2018 resulting in a change in its accounting policies and adjustments to amounts previously recognised in the financial statements.

i. Classification and measurement

IFRS 9 introduced an approach to the classification of financial assets that reflects 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. These categories replace the previous IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. 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.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.

ii. Impairment of financial assets

Changes between New Impairment Model to Previous Model

IFRS 9 introduced a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) rather than incurred losses as applied under the IAS 39. Previously, impairment losses were recognized if, and only if, there was objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event had a detrimental impact on the estimated future cash flows of the asset that could be reliably estimated. If there was no objective evidence of impairment for an individual financial asset, that financial asset was included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified.

Under the current IFRS 9, ECLs are being 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.

Under IFRS 9, 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.

Under IFRS 9, 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).

IFRS 9 replaces incurred the 'incurred loss model' with an 'expected credit loss model'. When measuring expected credit losses, the model recognises loss allowance depending on the stage in which the financial asset is;

iii. Hedge Accounting

IFRS 9 introduces 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 will 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.

v. Transition

The combined application of the contractual cash flow characteristics and business model tests as at 1 January 2018 results in significant impacts when compared to the previous classification under IAS 39.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied

Retrospectively, except as described below.

• Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

• The determination of the business model within which a financial asset is held.

• For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

• If a debt security had low credit risk at the date of initial application of IFRS 9, then The Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 3 (a).

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

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

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.

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

Buildings	Shorter of period of lease or 50 years
Motor vehicles	4 years
Fixtures, fittings and equipment	3-8 years

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. 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 statement of comprehensive income on a straight-line basis over the period of the lease.

ii. With the Bank as lessor:

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the Statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

To date, the Bank has not leased out any assets as lessor.

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. 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.

u. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fees and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

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: management therefore carefully manages the exposure to credit risk.

Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised and reports regularly to the Board of Directors through the Board Credit Committee.

i. Credit risk measurement

Loans and advances (including commitments and guarantees):

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.

ii. 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 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 portfolio 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 considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.
- 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 should be 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.- should be monitored and reviewed on a quarterly basis.

iii. 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 losses 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 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.

vi. 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 instruments 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.

vii. Definition of Default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the Bank will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due. In assessing whether the borrower is in default, the bank considers qualitative and quantitative indicators also bases on data obtained internally and obtained from external sources. The Bank's write-off policy under IAS 39 is not expected to be materially different under IFRS 9.

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

viii. Incorporation of forward-looking information

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.

ix. 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. When the terms of a financial asset are modified, the original stage of the ECL model is maintained for the customer.

x. 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.
- 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.

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:

	2018 SHS M	2017 SHS M
BALANCES WITH THE CENTRAL BANK (NOTE 14)	53,286	54,175
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS (NOTE 15)	66,592	63,291
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 32 (A))	48,571	26,184
LOANS AND ADVANCES TO CUSTOMERS (NOTE 17)	344,139	320,375
GOVERNMENT SECURITIES (NOTE 16 (A))	175,652	163,405
OTHER ASSETS (NOTE 18)	11,884	8,294
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS (NOTE 33):		
- TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	23,098	32,155
- PERFORMANCE BONDS AND STANDBYS	102,721	85,189
- COMMITMENTS TO LEND	17,233	6,737
TOTAL EXPOSURE	843,176	759,805

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018, 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 (2017: 42%); 21% represents investments in debt securities (2017: 22%).

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
- 81% of the loans and advances portfolio are neither past due nor impaired
- 98% of the loans and advances portfolio are not impaired; and
- 56% of the loans and advances portfolio are backed by collateral

	2018 SHS M	2017 SHS M
LOANS AND ADVANCES		
NEITHER PAST DUE NOR IMPAIRED	294,246	266,106
PAST DUE BUT NOT IMPAIRED	43,198	53,468
CREDIT IMPAIRED	17,202	7,208
GROSS	354,646	326,782
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 17 (A))	(10,507)	(6,407)
NET AMOUNT	344,139	320,375

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:

STANDARD	294,245	266,106

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	2018 SHS M	2017 SHS M
LOANS AND ADVANCES					
STANDARD AND CURRENT	276,489	17,758	-	294,247	273,314
PAST DUE UP TO 30 DAYS	39,560	-	-	39,560	47,576
PAST DUE 31 – 60 DAYS	8,605	3,163	711	12,479	4,868
PAST DUE 61 – 90 DAYS	-	3,075	-	3,075	564
PAST DUE OVER 90 DAYS	-	-	5,285	5,285	460
	324,654	23,996	5,996	354,646	326,782
LOSS ALLOWANCE	(3,769)	(2,100)	(4,638)	(10,507)	(6,407)
CARRYING AMOUNT	320,885	21,896	1,358	344,139	320,375

Individually impaired:

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

- CORPORATE	7,509	3,457
- SME	4,542	1,722
- RETAIL	5,151	2,029
	17,202	7,208

	2018 SHS M	2017 SHS M
FAIR VALUE OF COLLATERAL HELD	1,526	1,245

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 13,013 million (2017: Shs 11,706 million).

Repossessed collateral

During 2018, 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.

	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	2018 SHS M	2017 SHS M
OFF BALANCE SHEET ITEMS					
TRADE RELATED CREDITS	13,857	-	-	13,857	22,811
PERFORMANCE BONDS	97,185	5,747	150	103,082	88,581
DOCUMENTARY REMITTANCES	9,414	-	-	9,414	-
COMMITMENTS TO LEND	17,288	-	-	17,288	6,737
	137,744	5,747	150	143,641	118,129
LOSS ALLOWANCE	(366)	(215)	(8)	(589)	(-)
CARRYING AMOUNT	137,378	5,532	142	143,052	118,129
GOVERNMENT SECURITIES					
TREASURY BILLS	153,883	-	-	153,883	156,268
TREASURY BONDS	21,984	-	-	21,984	7,137
	175,867	-	-	175,867	163,405
LOSS ALLOWANCE	(215)	-	-	(215)	-
CARRYING AMOUNT	175,652	-	-	175,652	163,405

	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	2018 SHS M	2017 SHS M
BALANCES DUE FROM BANKS					
CENTRAL BANK	104,765	-	-	104,765	128,548
OTHER BANKING INSTITUTIONS	66,659	-	-	66,659	63,291
GROUP COMPANIES	48,620	-	-	48,620	26,184
	220,044	-	-	220,044	218,023
LOSS ALLOWANCE	(169)	-	-	(169)	-
CARRYING AMOUNT	219,875	-	-	219,875	218,023

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 cash flows 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 2018	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	568,867	568,867	558,704	3,280	6,883	-	-
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	39,435	39,435	39,435	-	-	-	-
AMOUNTS DUE TO GROUP COMPANIES	58,403	58,403	16,725	-	41,678	-	-
OTHER BORROWED FUNDS	884	884	190	-	245	449	-
OTHER LIABILITIES	19,482	19,482	19,483	-	-	-	-
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	687,071	687,071	634,537	3,280	48,806	449	-
ASSETS							
CASH AND BANK BALANCES WITH CENTRAL BANK	104,712	104,712	104,712	-	-	-	-
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	66,592	66,659	66,659	-	-	-	-
AMOUNTS DUE FROM GROUP COMPANIES	48,571	48,523	48,523	-	-	-	-
DERIVATIVE ASSETS	-	37	-	-	-	-	-
LOANS AND ADVANCES TO CUSTOMERS	344,139	354,646	89,740	37,380	49,080	116,927	61,519
GOVERNMENT SECURITIES	175,652	176,597	11,976	63,714	84,032	16,875	-
PROPERTY AND EQUIPMENT	13,072	13,072	-	6	415	3,317	9,334
INTANGIBLE ASSETS	4,737	4,737	-	-	91	2,685	1,961
OTHER ASSETS	38,492	38,586	35,630	-	-	-	2,956
TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	13,684	13,857	-	13,857	-	-	-
PERFORMANCE BONDS AND STANDBYS	102,721	103,082	-	-	-	103,082	-
COMMITMENTS TO LEND	17,233	17,289	17,289	-	-	-	-
TOTAL ASSETS (EXPECTED MATURITY DATES)	929,605	941,797	374,529	114,957	133,618	242,884	75,770
ON-BALANCE SHEET MISMATCH	242,534	254,726	(260,008	111,677	84,812	242,435	75,770
NET OFF-BALANCE SHEET MISMATCH	(124,924)	(124,924)	(27,879)	(27,552)	(45,414)	(24,079)	-
NET LIQUIDITY POSITION	117,610	186,104	(287,887	84,125	39,398	218,356	75,770

AT 31 DECEMBER 2017	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	544,320	553,362	511,135	8,644	33,583	-	-
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	19,618	22,367	22,367	-	-	-	-
AMOUNTS DUE TO GROUP COMPANIES	62,989	62,986	26,025	36,961	-	-	-
OTHER BORROWED FUNDS	1,226	1,265	73	170	124	-	-
OTHER LIABILITIES	21,082	21,082	21,082	-	-	898	-
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	649,235	661,062	580,682	45,775	33,707	898	
ASSETS							
CASH AND BANK BALANCES WITH CENTRAL BANK	128,548	160,274	139,012	21,262	-	-	-
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	63,291	66,925	66,925	-	-	-	-
AMOUNTS DUE FROM GROUP COMPANIES	26,184	26,185	26,185	-	-	-	-
DERIVATIVE ASSETS	37	37	37	-	-	-	-
LOANS AND ADVANCES TO CUSTOMERS	320,375	352,593	83,018	80,834	33,982	111,465	43,294
GOVERNMENT SECURITIES	163,405	187,232	292	51,804	127,745	7,391	-
PROPERTY AND EQUIPMENT	10,572	10,572	-	6	392	4,189	5,985
INTANGIBLE ASSETS	9,781	9,781	-	1	386	2,395	6,999
OTHER ASSETS	34,173	34,173	31,170	-	-	-	3,003
TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	32,155	36,232	36,232	-	-	-	-
PERFORMANCE BONDS AND STANDBYS	85,988	95,157	-	-	-	95,157	-
COMMITMENTS TO LEND	6,737	6,737	6,737	-	-	-	-
TOTAL ASSETS (EXPECTED MATURITY DATES)	881,246	985,898	389,608	153,907	162,505	220,597	59,281
ON-BALANCE SHEET MISMATCH	232,011	324,836	(191,074	108,132	128,798	219,699	59,281
NET OFF-BALANCE SHEET MISMATCH	(111,707)	(111,707)	(31,094)	(19,406)	(55,982)	(5,225)	-
NET LIQUIDITY POSITION	120,304	213,129	(222,168	88,726	72,816	214,474	59,281

c. Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates, 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 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 table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2018 and 2017. Included in the table are the Bank's financial instruments, categorised by foreign currency.

AT 31 DECEMBER 2018	USD SHS M	GBP SHS M	EURO SHS M	OTHER SHS M	TOTAL SHS M
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	25,538	4,544	3,388	266	33,736
BALANCES DUE FROM BANKING INSTITUTIONS	7,055	1,001	2,830	375	11,261
AMOUNTS DUE FROM GROUP COMPANIES	37,322	38	10,739	2	48,101
LOANS AND ADVANCES	181,734	-	170	-	181,904
OTHER FINANCIAL ASSETS	63,470	-	361	-	63,831
TOTAL ASSETS	315,119	5,583	17,488	643	338,833
LIABILITIES					
CUSTOMER DEPOSITS	217,478	1,465	14,155	519	233,617
BALANCES DUE TO BANKING INSTITUTIONS	38,749	-	504	-	39,253
AMOUNTS DUE TO GROUP COMPANIES	58,372	-	-	-	58,372
OTHER FINANCIAL LIABILITIES	3,373		2,259	-	5,632
TOTAL LIABILITIES	317,972	1,465	16,918	519	336,874
NET ON-BALANCE SHEET POSITION	(2,853)	4,118	570	124	1,959
NET OFF-BALANCE SHEET POSITION	(4,212)	(3,981)	(297)	(220)	(8,710)
OVERALL OPEN POSITION	(7,065)	137	273	(96)	(6,751)
AT 31 DECEMBER 2017	(3,607)	207	255	(592)	(3,737)

At 31 December 2018, 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 68 million (2017: Shs 26 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.

	2018 SHS M	2017 SHS M
EFFECT ON PROFIT BEFORE TAX PER CURRENCY (+/-)		
USD	70	46
GBP	0.9	22
EUR	2.7	51
OTHERS	1	1

Interest rate risk

The Bank has exposure to the effects of fluctuations in market interest rates which impacts 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 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 2018, 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 445 million (2017: Shs 2,088 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 2018	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	-	-	-	-	104,712	104,712
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	18,608	-	-	-	47,984	66,592
AMOUNTS DUE FROM GROUP COMPANIES	37,348	-	-	-	11,223	48,571
DERIVATIVE ASSETS					-	-
LOANS AND ADVANCES TO CUSTOMERS	80,267	37,488	49,221	177,163	-	344,139
GOVERNMENT SECURITIES	11,964	63,650	83,948	16,090	-	175,652
PROPERTY AND EQUIPMENT	-	-	-	-	13,072	13,072
OPERATING LEASE PREPAYMENT	-	-	-	-	2,956	2,956
INTANGIBLE ASSETS	-	-	-	-	4,737	4,737
OTHER ASSETS	-	-	-	-	38,492	38,492
TOTAL ASSETS	**148,187**	**101,138**	**133,169**	**193,253**	**223,176**	**798,923**
LIABILITIES						
CUSTOMER DEPOSITS	42,482	67,723	102,812	124,699	231,151	568,867
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	-	-	-	39,435	39,435
AMOUNTS DUE TO GROUP COMPANIES	16,725	-	37,674	-	4,004	58,403
OTHER BORROWED FUNDS	190	-	245	449	-	884
OTHER LIABILITIES	-	-	-	-	19,482	19,482
EQUITY	-	-	-	-	111,852	111,852
TOTAL LIABILITIES	**59,397**	**67,723**	**140,731**	**125,148**	**405,924**	**798,923**
INTEREST RE-PRICING GAP	**88,790**	**33,415**	**(7,562)**	**68,105**	**(182,748)**	**-**
AT 31 DECEMBER 2017						
INTEREST SENSITIVITY GAP	**(162,284)**	**134,263**	**71,956**	**154,592**	**(198,527)**	**-**

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 cash flows 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). The sources of input parameters like 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.

AT 31 DECEMBER 2018	LEVEL 1 SHS M	LEVEL 2 SHS M	LEVEL 3 SHS M	TOTAL SHS M
ASSETS MEASURED AT FAIR VALUE				
CURRENCY SWAPS	-	-	-	-
AT 31 DECEMBER 2017				
CURRENCY SWAPS	-	37	-	37

The table below shows items not measured at fair value for which fair value is disclosed

AT 31 DECEMBER 2018	LEVEL 1 SHS M	LEVEL 2 SHS M	LEVEL 3 SHS M	TOTAL SHS M
FINANCIAL ASSETS				
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	-	66,592	-	66,592
DEPOSITS DUE FROM GROUP COMPANIES	-	48,571	-	48,571
GOVERNMENT SECURITIES	-	175,652	-	175,652
LOANS AND ADVANCES TO CUSTOMERS	-	344,139	-	344,139
OTHER ASSETS	-	11,884	-	11,884
TOTAL ASSETS	-	646,838	-	646,838

AT 31 DECEMBER 2018	LEVEL 1 SHS M	LEVEL 2 SHS M	LEVEL 3 SHS M	TOTAL SHS M
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	-	568,867	-	568,867
BALANCES DUE TO OTHER BANKING INSTITUTIONS	-	39,435	-	39,435
AMOUNTS DUE TO GROUP COMPANIES	-	58,403	-	58,403
OTHER BORROWINGS	-	884	-	884
OTHER LIABILITIES	-	19,482	-	19,482
TOTAL LIABILITIES	-	687,071	-	687,071

31 DECEMBER 2017	LEVEL 1 SHS M	LEVEL 2 SHS M	LEVEL 3 SHS M	TOTAL SHS M
FINANCIAL ASSETS				
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	-	63,291	-	63,291
DEPOSITS DUE FROM GROUP COMPANIES	-	26,184	-	26,184
GOVERNMENT SECURITIES	-	163,405	-	163,405
LOANS AND ADVANCES TO CUSTOMERS	-	320,375	-	320,375
OTHER ASSETS	-	12,749	-	12,749
TOTAL ASSETS	-	586,004	-	586,004
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	-	544,320	-	544,320
BALANCES DUE TO OTHER BANKING INSTITUTIONS	-	19,618	-	19,618
AMOUNTS DUE TO GROUP COMPANIES	-	62,989	-	62,989
OTHER BORROWINGS	-	1,226	-	1,226
OTHER LIABILITIES	-	21,082	-	21,082
TOTAL LIABILITIES	-	649,235	-	649,235

There were no movements between levels 1 and 2 and 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:

31 DECEMBER 2018	NOTE	DESIGNATED AS AT FVTPL SHS M	AMORTISED COST SHS M	TOTAL CARRYING AMOUNT SHS M
FINANCIAL ASSETS				
CASH AND BALANCES WITH CENTRAL BANK	14	-	104,712	104,712
PLACEMENTS WITH OTHER BANKS	15	-	66,592	66,592
AMOUNTS DUE FROM GROUP COMPANIES	32 (A)	-	48,571	48,571
LOANS AND ADVANCES TO CUSTOMERS	17 (A)	-	344,139	344,139
INVESTMENT SECURITIES:				
– HELD TO MATURITY	16 (A)	-	175,652	175,652
OTHER ASSETS	18	-	11,884	11,884
TOTAL		-	751,550	751,550

AT 31 DECEMBER 2018	LEVEL 1 SHS M	LEVEL 2 SHS M	LEVEL 3 SHS M	TOTAL SHS M
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	22	-	568,867	568,867
DEPOSITS FROM OTHER BANKS	23	-	39,435	39,435
AMOUNTS DUE TO GROUP COMPANIES	32 (B)	-	58,403	58,403
OTHER LIABILITIES	25	-	19,482	19,482
OTHER BORROWED FUNDS	24	-	884	884
TOTAL		-	687,071	687,071

31 DECEMBER 2017	NOTE	DESIGNATED AS AT FVTPL SHS M	AMORTISED COST SHS M	TOTAL CARRYING AMOUNT SHS M
FINANCIAL ASSETS				
CASH AND BALANCES WITH CENTRAL BANK	14	-	128,548	128,548
PLACEMENTS WITH OTHER BANKS	15	-	63,291	63,291
AMOUNTS DUE FROM GROUP COMPANIES	32 (A)	-	26,184	26,184
LOANS AND ADVANCES TO CUSTOMERS	17 (A)	-	320,375	320,375
INVESTMENT SECURITIES:				
– HELD TO MATURITY	16 (A)	-	163,405	163,405
TOTAL		-	701,803	701,803
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	22	-	544,320	544,320
DEPOSITS FROM OTHER BANKS	23	-	19,618	19,618
AMOUNTS DUE TO GROUP COMPANIES	32 (B)	-	62,989	62,989
OTHER LIABILITIES	25	-	21,082	21,082
OTHER BORROWED FUNDS	24	-	1,226	1,226
TOTAL		-	649,235	649,235

ii. Classification of Financial assets and Financial liabilities at the date of initial application of IFRS 9

The table below shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for The Bank's financial assets and financial liabilities as at 1 January 2018.

		CLASSIFICATION		AMOUNTS	
31 DECEMBER 2017	NOTE	PREVIOUS (IAS 39)	CURRENT (IFRS 9)	PREVIOUS (IAS 39) SHS M	CURRENT (IFRS 9) SHS M
FINANCIAL ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	14	AMORTISED COST	AMORTISED COST	128,548	128,477
PLACEMENTS WITH OTHER BANKS	15			63,291	63,228
AMOUNTS DUE FROM GROUP COMPANIES	32 (A)	AMORTISED COST	AMORTISED COST	26,184	26,158
LOANS AND ADVANCES TO CUSTOMERS	17 (A)	AMORTISED COST	AMORTISED COST	320,375	319,378
OTHER ASSETS	18	AMORTISED COST	AMORTISED COST	12,749	12,650
INVESTMENT SECURITIES:					
– HELD TO MATURITY	16 (A)	HELD TO MATURITY	AMORTISED COST	163,405	163,242
TOTAL FINANCIAL ASSETS				714,552	713,133

		CLASSIFICATION		AMOUNTS	
31 DECEMBER 2017	NOTE	PREVIOUS (IAS 39)	CURRENT (IFRS 9)	PREVIOUS (IAS 39) SHS M	CURRENT (IFRS 9) SHS M
FINANCIAL LIABILITIES					
CUSTOMER DEPOSITS	22	AMORTISED COST	AMORTISED COST	544,320	544,320
DEPOSITS FROM OTHER BANKS	23	AMORTISED COST	AMORTISED COST	19,618	19,618
AMOUNTS DUE TO GROUP COMPANIES	32 (B)	AMORTISED COST	AMORTISED COST	62,989	62,989
OTHER LIABILITIES	13 (B)	AMORTISED COST	AMORTISED COST	21,082	22,652
OTHER BORROWED FUNDS	24	AMORTISED COST	AMORTISED COST	1,226	1,226
TOTAL FINANCIAL LIABILITIES				649,235	650,805

The table below reconciles the carrying amounts under IAS 39 to the current amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 CARRYING AMOUNT 31 DEC 17 SHS M	RECLASSIFICATION SHS M	REMEASUREMENT SHS M	IFRS 9 CARRYING AMOUNT 1 JAN 2018 SHS M
FFINANCIAL ASSETS				
AMORTISED COST				
CASH AND BALANCES WITH CENTRAL BANK:				
OPENING BALANCE	128,548		-	
REMEASUREMENT			(70)	
CLOSING BALANCE				128,478
PLACEMENTS WITH OTHER BANKS:				
OPENING BALANCE	63,291			
REMEASUREMENT			(63)	
CLOSING BALANCE				63,226
AMOUNTS DUE FROM GROUP COMPANIES:				
OPENING BALANCE	26,184			
REMEASUREMENT			(26)	
CLOSING BALANCE				26,158
LOANS AND ADVANCES TO CUSTOMERS:				
OPENING BALANCE	320,375			
REMEASUREMENT			(997)	
CLOSING BALANCE				319,378
INVESTMENT SECURITIES:				
OPENING BALANCE	163,405	(163,405)		
FROM HELD TO MATURITY		163,405		
REMEASUREMENT			(163)	
CLOSING BALANCE				163,242
OTHER ASSETS:				
OPENING BALANCE	12,749			
REMEASUREMENT				
CLOSING BALANCE			(95)	12,654
FINANCIAL ASSETS – AMORTISED COST	714,552	-	(1,416)	713,133

	IAS 39 CARRYING AMOUNT 31 DEC 17 SHS M	RECLASSIFICATION SHS M	REMEASUREMENT SHS M	IFRS 9 CARRYING AMOUNT 1 JAN 2018 SHS M
FINANCIAL LIABILITIES				
AMORTISED COST				
CUSTOMER DEPOSITS:				
OPENING BALANCE	(544,320)			
REMEASUREMENT			-	
CLOSING BALANCE				(544,320)
DEPOSITS FROM OTHER BANKS:				
OPENING BALANCE	(19,618)			
REMEASUREMENT			-	
CLOSING BALANCE				(19,618)
AMOUNTS DUE TO GROUP COMPANIES:				
OPENING BALANCE	(62,989)			
REMEASUREMENT			-	
CLOSING BALANCE				(62,989)
OTHER LIABILITIES:				
OPENING BALANCE	(21,082)			
REMEASUREMENT			(1,570)	
CLOSING BALANCE				(22,652)
OTHER BORROWED FUNDS:				
OPENING BALANCE	(1,226)			
REMEASUREMENT			-	
CLOSING BALANCE				(1,226)
FINANCIAL LIABILITIES – AMORTISED COST	(649,235)	-	(1,570)	(650,805)

The following table summarised the impact of transition to IFRS 9 on the opening balance of retained earnings. There is no impact on other components of equity.

	IMPACT OF ADOPTING IFRS 9 AT 1 JANUARY 2018 SHS M
RETAINED EARNINGS	
CLOSING BALANCE UNDER IAS 39 (31 DECEMBER 2017)	28,405
RECLASSIFICATIONS UNDER IFRS 9 (NET OF TAX)	-
RECOGNITION OF EXPECTED CREDIT LOSSES UNDER IFRS 9 (INCLUDING LOAN COMMITMENT AND FINANCIAL GUARANTEE CONTACTS)	(2,986)
RELATED TAX	896
OPENING BALANCE UNDER IFRS 9 (1 JANUARY 2018)	26,315

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. Property and equipment carries 100% risk weighting, meaning that it must be supported by capital equal to 12.5% of the carrying amount.

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:

	2018 SHS M	2017 SHS M
CORE CAPITAL (TIER 1)		
SHARE CAPITAL	46,775	46,775
SHARE PREMIUM	23,614	23,614
RETAINED EARNINGS	32,980	28,405
LESS:		
UNREALISED FOREIGN EXCHANGE GAINS	(2,101)	(1,530)
INTANGIBLE ASSETS	(4,737)	(9,781)
DEFERRED INCOME TAX ASSET	(18,901)	(18,421)
TOTAL CORE CAPITAL	77,630	69,062
SUPPLEMENTARY CAPITAL (TIER 2)		
GENERAL PROVISIONS	3,739	3,275
SUBORDINATED DEBT	-	-
TIER 2 CAPITAL	3,739	3,275
TOTAL CAPITAL (TIER 1 AND TIER 2)	81,369	72,397

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 2018:

	RISK WEIGHTED AMOUNTS		RISK WEIGHTED	RISK WEIGHTED AMOUNTS	
	2018 SHS M	2017 SHS M	%	2018 SHS M	2017 SHS M
BALANCE SHEET ASSETS (NET OF PROVISIONS)					
CASH AND BALANCES WITH BANK OF UGANDA	104,765	128,548	0%	-	-
DUE FROM COMMERCIAL BANKS IN UGANDA	7,475	2,011	20%	1,495	402
AMOUNTS DUE FROM OTHER BANKS:					
RATED AAA TO AA (-)	-	-	20%	-	-
RATED A (+) TO A (-)	42,686	34,600	50%	21,343	17,300
RATED A (-) AND NON-RATED	16,547	26,680	100%	16,547	26,658
AMOUNTS DUE FROM GROUP COMPANIES	48,571	26,184	100%	48,571	26,680
LOANS AND ADVANCES TO CUSTOMERS	331,907	326,469	100%	331,907	326,469
INVESTMENT SECURITIES HELD TO MATURITY	175,866	163,405	0%	-	-
PROPERTY AND EQUIPMENT	13,072	10,572	100%	13,072	10,572
OPERATING LEASE PREPAYMENTS	2,956	3,003	100%	2,956	3,003
INTANGIBLE ASSETS (OFFSET AGAINST CORE CAPITAL)	4,737	9,781	0%	-	-
DEFERRED TAX ASSETS (OFFSET AGAINST CORE CAPITAL)	18,901	18,421	0%	-	-
OTHER ASSETS	19,691	12,749	100%	19,591	12,749
ON BALANCE SHEET ASSETS	787,074	762,423		455,482	423,359
OFF-BALANCE SHEET POSITIONS					
CONTINGENTS SECURED BY CASH COLLATERAL	16,257	20,384	0%	-	-
GUARANTEES AND ACCEPTANCES	-	-	100%	-	-
PERFORMANCE BONDS AND STANDBYS	87,683	68,197	50%	43,842	34,099
TRADE RELATED AND SELF-LIQUIDATING CREDITS	22,413	22,811	20%	4,483	4,562
COMMITMENTS TO LEND	17,289	6,737	50%	8,645	3,369
OFF BALANCE SHEET ITEMS	143,642	118,129		56,970	42,030
TOTAL RISK-WEIGHTED ASSETS	931,715	880,552		512,452	465,389
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%	-	-
RATED A (-) AND NON-RATED	-	-	100%	-	-
TOTAL RISK WEIGHTED CCR EXPOSURES	-	-		-	-
FOREIGN EXCHANGE					
FOREIGN EXCHANGE RISK CHARGE	881	-	8.33	7,339	-
TOTAL MIN. CAPITAL REQUIRED FOR MARKET RISK	881	-		7,339	-
TOTAL RISK WEIGHTED ITEMS	938,054	880,552		519,791	465,389

Capital ratios per Financial Institutions Act (FIA)

	2018 SHS M	2017 SHS M
CORE CAPITAL	14.8%	14.8%
TOTAL CAPITAL	15.5%	15.5%
REGULATORY MINIMUM RATIO CAPITAL REQUIREMENT:		
CORE CAPITAL	10.0%	8%
TOTAL CAPITAL	12.0%	12%

5. Interest income

	2018 SHS M	2017 SHS M
LOANS AND ADVANCES	45,911	44,074
GOVERNMENT SECURITIES	20,180	25,810
SHORT TERM PLACEMENTS	2,185	3,014
TOTAL	68,276	72,898

Included within interest income from loans and advances to customers is interest income relating to impaired assets of Shs 126 million (2017: Shs 51 million). Interest income is recognised using the effective interest rate on financial assets. These related assets are measured at amortised cost.

6. Interest expense

	2018 SHS M	2017 SHS M
CUSTOMER DEPOSITS	8,287	8,510
DEPOSITS DUE TO BANKING INSTITUTIONS	2,867	2,692
BORROWED FUNDS	64	145
OTHER	526	934
TOTAL	11,744	12,281

All related interest bearing liabilities were measured at amortised cost.

7. Fee and commission income

a. The breakdown below illustrates fees by type

	2018 SHS M	2017 SHS M
TRANSACTIONAL FEES AND COMMISSION INCOME	19,592	17,302
CREDIT RELATED FEES AND COMMISSION INCOME	6,711	5,088
TOTAL	26,303	22,390

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

	2018 SHS M	2017 SHS M
TRANSACTIONAL FEES AND COMMISSION INCOME	21,272	17,302
ACCOUNT SERVICES	5,031	5,088
TOTAL	26,303	22,390

8. Fee and commission expense

	2018 SHS M	2017 SHS M
TRANSACTIONAL FEES AND COMMISSION EXPENSE	6,367	5,270
CREDIT RELATED FEES AND COMMISSION EXPENSE	10	63
TOTAL	6,377	5,333

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.

	2018 SHS M	2017 SHS M

9. Foreign exchange income

REALISED FOREIGN EXCHANGE GAINS	8,718	3,349
UNREALISED FOREIGN EXCHANGE (LOSSES)/ GAINS	(1,118)	2,767
TOTAL	7,600	6,116

10. Other operating income

RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF AS UNCOLLECTIBLE	864	679
MISCELLANEOUS INCOME	1,353	1,004
TOTAL	2,217	1,683

11. Operating expenses

EMPLOYEE BENEFITS EXPENSE (NOTE 12)	30,375	30,645
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 19)	2,716	2,937
AMORTISATION OF INTANGIBLE ASSETS (NOTE 21)	1,394	1,224
AUDITOR'S REMUNERATION	259	235
LEGAL AND PROFESSIONAL FEES	643	493
MARKETING AND ADVERTISING	1,428	1,930
TRAVEL EXPENSES	1,541	1,615
EXCISE DUTY ON FEES	1,624	1,912
OCCUPANCY AND PREMISES COSTS	7,122	6,710
COMMUNICATION EXPENSES	2,825	2,939
REPAIRS AND MAINTENANCE	4,649	3,589
DEPOSIT PROTECTION SCHEME CONTRIBUTION	1,028	922
PRINTING AND STATIONERY	788	916
OTHER OPERATING EXPENSES	4,424	5,073
TOTAL	60,816	61,140

12. Employee benefits expense

SALARIES AND WAGES	23,896	25,185
NSSF CONTRIBUTIONS	2,061	1,868
DEFINED CONTRIBUTION SCHEME CONTRIBUTIONS	1,401	898
OTHER STAFF COSTS	3,017	2,694
TOTAL	30,375	30,645

13. Taxation

a. Income tax expense

CURRENT INCOME TAX CHARGE	4,261	5,335
DEFERRED INCOME TAX CREDIT/ (EXPENSE) (NOTE 26)	415	(1,130)
TOTAL	4,676	4,205

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.

	2018 SHS M	2017 SHS M
PROFIT BEFORE INCOME TAX	19,825	20,878
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2017: 30%)	5,947	6,263
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(6,642)	(8,494)
TAX EFFECT OF NON-DEDUCTIBLE ITEMS	910	1,155
FINAL TAX ON GOVERNMENT SECURITIES	4,261	5,335
PRIOR YEAR DEFERRED INCOME TAX OVER / (UNDER) PROVISION	200	(54)
INCOME TAX EXPENSE	4,676	4,205
THE EFFECTIVE TAX RATE	23.7%	20.0%

b. Tax payable was as follows:

	2018 SHS M	2017 SHS M
AT START OF YEAR	(1,133)	(2,064)
CURRENT INCOME TAX CHARGE	(4,261)	(5,335)
INCOME TAX PAID	3,863	6,266
AT END OF YEAR	(1,531)	(1,133)

14. Cash and balances with Bank of Uganda

	2018 SHS M	2017 SHS M
CASH ON HAND	51,426	57,320
OTHER MONEY-MARKET PLACEMENTS WITH BANK OF UGANDA	-	17,053
BALANCES WITH THE CENTRAL BANK	30,267	33,025
CASH RESERVE REQUIREMENT (FOR FURTHER DETAILS REFER TO NOTE 29)	23,072	21,150
LESS: IMPAIRMENT LOSS ALLOWANCE	(53)	-
TOTAL	104,712	128,548

15. Deposits and balances due from other banking institutions

	2018 SHS M	2017 SHS M
BALANCES DUE FROM OTHER BANKING INSTITUTIONS – OUTSIDE UGANDA	48,149	50,359
DEPOSITS WITH OTHER BANKING INSTITUTIONS – INSIDE UGANDA	18,559	12,932
LESS: IMPAIRMENT LOSS ALLOWANCE	(116)	-
TOTAL	66,592	63,291

The weighted average effective interest rate on deposits and balances due from other banking institutions was 4.6% (2017: 4.5 %).

16. Government securities and derivatives

a. Held to maturity investments – at amortised cost

	2018 SHS M	2017 SHS M
Treasury bills		
Face value		
MATURING AFTER 90 DAYS OF THE DATE OF ACQUISITION	159,799	164,556
MATURING WITHIN 90 DAYS OF THE DATE OF ACQUISITION	-	-
LESS: UNEARNED INTEREST	(5,917)	(8,288)
IMPAIRMENT LOSS ALLOWANCE	(153)	-
TOTAL	153,729	156,268

	2018 SHS M	2017 SHS M
Treasury bonds		
FACE VALUE	29,599	8,375
LESS: UNEARNED DISCOUNT	(7,615)	(1,238)
IMPAIRMENT LOSS ALLOWANCE	(61)	-
TOTAL	21,923	7,137
HELD TO MATURITY INVESTMENTS - AT AMORTISED COST	175,652	163,405

The weighted average effective interest rate on treasury bills and bonds was 12.7% (2017: 14.6%)

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

b. 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. The fair values of derivative financial instruments held are set out below:

	2018 SHS M	2017 SHS M
CURRENCY FORWARDS AND SWAPS RECEIVABLE	-	8,998
CURRENCY FORWARDS AND SWAPS PAYABLE	-	(8,961)
TOTAL	-	37

17. Loans and advances to customers

a. Analysis of loan advances to customers by category:

TERM LOANS	308,083	284,847
OVERDRAFTS	46,563	41,935
GROSS LOANS AND ADVANCES	354,646	326,782
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(4,637)	(2,777)
- COLLECTIVELY ASSESSED	(5,870)	(3,630)
TOTAL	344,139	320,375

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

	INDIVIDUALLY ASSESSED SHS M	COLLECTIVELY ASSESSED SHS M	TOTAL SHS M
YEAR ENDED 31 DECEMBER 2018			
AT 1 JANUARY	2,796	4,606	7,402
PROVISION FOR LOAN IMPAIRMENT	6,551	1,264	7,815
AMOUNTS RECOVERED DURING THE YEAR	(1,259)	-	(1,259)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(3,451)	-	(3,451)
AT 31 DECEMBER	4,637	5,870	10,507

	INDIVIDUALLY ASSESSED SHS M	COLLECTIVELY ASSESSED SHS M	TOTAL SHS M
YEAR ENDED 31 DECEMBER 2017			
AT 1 JANUARY	2,326	3,165	5,491
PROVISION FOR LOAN IMPAIRMENT	3,662	465	4,127
AMOUNTS RECOVERED DURING THE YEAR	(672)	-	(672)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(2,539)	-	(2,539)
AT 31 DECEMBER	2,777	3,630	6,407

The weighted average effective interest rate on loans and advances was 13.9% (2017: 14.1%). A sensitivity analysis on the loss ratio indicates that a 25 basis point addition in segment loss ratios impacts the profit before tax by Shs 600 M (2017: Shs 800 M).

The table below shows the impairment comparisons between local regulatory requirements and IFRS 9 as at 1 January 2018 and 31 December 2018.

	1 JANUARY 2018 SHS M	31 DECEMBER SHS M
SPECIFIC PROVISIONS (REGULATORY)	1,495	5,715
GENERAL PROVISIONS (REGULATORY)	3,275	3,739
TOTAL REGULATORY PROVISIONS	4,770	9,454
STAGE 1	3,824	3,770
STAGE 2	782	2,100
STAGE 3	2,796	4,637
TOTAL	7,402	10,507
EXTRA PROVISIONS HELD ABOVE REGULATORY REQUIREMENT	2,632	1,053

b. Impairment losses charged to profit or loss:

	2018 SHS M	2017 SHS M
PROVISION FOR LOAN IMPAIRMENT (NOTE 17 (A))	6,836	4,127
PROVISION FOR IMPAIRMENT OF OTHER FINANCIAL INSTRUMENTS	800	-
AMOUNTS RECOVERED DURING THE YEAR (NOTE 17 (A))	(1,259)	(672)
TOTAL	6,377	3,455

c. Regulatory reserve

	2018 SHS M	2017 SHS M
ANALYSIS AS PER BANK OF UGANDA GUIDELINES		
IMPAIRMENT AS PER IFRS		
INDIVIDUALLY ASSESSED IMPAIRMENT (NOTE 17 (A))	4,637	2,777
COLLECTIVELY ASSESSED IMPAIRMENT (NOTE 17 (A))	5,870	3,630
TOTAL	10,507	6,407
TOTAL PROVISIONS AS PER BOU GUIDELINES		
SPECIFIC PROVISIONS	4,230	1,495
GENERAL PROVISIONS	3,739	3,275
TOTAL	7,969	4,770
REGULATORY RESERVE		
AT 1 JANUARY	-	-
TRANSFER TO THE REGULATORY RESERVE	-	-
AT 31 DECEMBER	-	-

d. Sectoral analysis – loans and advances

	2018 SHS M	2017 SHS M
AGRICULTURE	31,324	34,487
MANUFACTURING	49,991	43,169
TRADE AND COMMERCE	72,973	77,225
FINANCIAL SERVICES	5,675	3,265
TRANSPORT AND UTILITIES	18,224	24,030
BUILDING AND CONSTRUCTION	76,125	64,464
INDIVIDUALS	57,769	45,926
OTHER	42,565	34,216
TOTAL	354,646	326,782

18. Other assets

	2018 SHS M	2017 SHS M
OTHER ASSETS		
ACCOUNTS RECEIVABLE AND PREPAYMENTS	7,902	7,037
ITEMS IN TRANSIT	7,651	4,844
STATIONERY STOCK	325	459
OTHER	299	409
LESS: LOSS IMPAIRMENT ALLOWANCE	(94)	-
TOTAL	19,591	12,749

The carrying amounts of other assets approximate to fair values.

19. Property and equipment

	BUILDINGS SHS M	MOTO VEHICLESS SHS M	FIXTURES, FITTINGS & EQUIPMENT SH M	WORK IN PROGRESS SHS M	TOTAL SHS M
COST					
AT 1 JANUARY 2017	3,470	2,118	27,748	99	33,435
ADDITIONS	-	-	-	1,697	1,697
TRANSFERS FROM WIP	-	774	828	(1,601)	(2)
TRANSFERS(RECLASSIFICATION)	-	-	-	-	-
DISPOSALS	-	(89)	(966)	-	(1,055)
WRITE-OFFS	-	-	-	(18)	(18)
AT 31 DECEMBER 2017	3,470	2,803	27,610	177	34,057
ADDITIONS	-	-	988	5,216	6,207
TRANSFERS FROM WIP	-	-	-	(988)	(988)
DISPOSALS	-	-	-	-	-
WRITE-OFFS	-	-	-	-	-
AT 31 DECEMBER 2018	3,470	2,803	28,598	4,405	39,276
DEPRECIATION					
AT 1 JANUARY 2017	(830)	(1,731)	(20,926)	-	(23,488)
CHARGE FOR THE YEAR	(73)	(523)	(2,123)	-	(2,716)
DEPRECIATION ON DISPOSAL	-	-	-	-	-
AT 31 DECEMBER 2018	2,567	548	5,552	4,405	13,072
NET CARRYING VALUE					
AT 31 DECEMBER 2017	2,640	1,071	6,684	177	10,572
AT 31 DECEMBER 2018	2,567	548	5,552	4,405	13,072

20. Operating lease prepayments

	2018 SHS M	2017 SHS M
COST		
AT 1 JANUARY	3,440	3,440
ADDITIONS	-	-
AT 31 DECEMBER	3,440	3,440
AMORTISATION		
AT 1 JANUARY	437	390
CHARGE FOR THE YEAR	47	47
AT 31 DECEMBER	484	437
NET BOOK VALUE		
AT 31 DECEMBER	2,956	3,003

The above relates to banking premises leased for a 99 year period.

21. Intangible assets

	2018 SHS M	2017 SHS M
NET BOOK AMOUNT AT 1 JANUARY	9,781	3,955
ADDITIONS: COMPUTER SOFTWARE	348	7,143
TRANSFERS (RECLASSIFICATION) FROM CAPITAL WIP TO INTANGIBLE ASSETS	(3,998)	-
WRITE-OFFS		(93)
AMORTISATIONS	(1,394)	(1,224)
NET BOOK AMOUNT AT 31 DECEMBER	4,737	9,781
COST	13,144	16,794
ACCUMULATED DEPRECIATION	(8,407)	(7,013)
NET BOOK AMOUNT	4,737	9,781

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

22. Customer deposits

a. Current and demand deposits

	2018 SHS M	2017 SHS M
CURRENT AND DEMAND DEPOSITS	292,609	265,418
SAVINGS ACCOUNTS	191,210	193,185
FIXED DEPOSIT ACCOUNTS	67,420	64,865
MARGIN DEPOSITS	17,628	20,852
TOTAL	568,867	544,320

b. Sectoral analysis - customer deposits

	2018 SHS M	2017 SHS M
BANKS AND FINANCIAL INSTITUTIONS	46,892	34,434
PRIVATE ENTERPRISES AND INDIVIDUALS	231,580	218,486
GOVERNMENT AND PARASTATALS	14,096	32,472
AGRICULTURE	19,313	24,274
BUILDING AND CONSTRUCTION	55,125	46,131
MANUFACTURING	9,650	10,434
TRADE AND COMMERCE	52,750	55,050
TRANSPORT AND UTILITIES	30,256	23,277
OTHER SERVICES	109,205	99,762
TOTAL	568,867	544,320

23. Deposits and balances due to other banking Institutions

	2018 SHS M	2017 SHS M
ITEMS IN COURSE OF COLLECTION	39,435	19,618
TERM DEPOSITS	-	
	39,435	19,618

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 2.9% (2017: 0%).

24. Other borrowings

	2018 SHS M	2017 SHS M
EIB - PRIVATE ENTERPRISE FINANCE FACILITY	611	785
BOU AGRICULTURAL CREDIT FACILITY	273	440
TOTAL	884	1,225

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 2018. 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

	2018 SHS M	2017 SHS M
BILLS PAYABLE	833	655
CREDITORS	5,280	5,896
ACCRUALS	11,413	13,039
OTHER PAYABLES	425	350
TOTAL	17,951	19,950

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:

	2018 SHS M	2017 SHS M
ACCELERATED CAPITAL ALLOWANCES	(626)	(824)
TAX LOSSES BROUGHT FORWARD	17,111	17,047
PROVISIONS FOR LOAN IMPAIRMENT	1,757	1,238
OTHER PROVISIONS	783	1,419
UNREALISED TRANSLATION DIFFERENCES	(124)	(459)
NET DEFERRED TAX ASSET	18,901	18,421
THE MOVEMENT ON THE DEFERRED TAX ASSET ACCOUNT IS AS FOLLOWS:		
AT START OF YEAR	18,421	17,291
ADJUSTMENT THROUGH THE RETAINED EARNINGS	896	-
ADJUSTED THROUGH PROFIT AND LOSS:		
PRIOR YEAR OVER PROVISION FOR DEFERRED TAX	16	-
INCOME STATEMENT CREDIT – CURRENT YEAR (NOTE 13)	(432)	1,130
AT END OF YEAR	18,901	18,421

27. Share capital

	NUMBER OF SHARES ISSUED & FULLY PAID (THOUSANDS)	ORDINARY SHARES SHS M	SHARE PREMIUM SHS M
2017			
BALANCE AT 1 JANUARY 2017	46,775	46,775	23,614
BALANCE AT 31 DECEMBER 2017	46,775	46,775	23,614
2018			
BALANCE AT 1 JANUARY 2018	46,775	46,775	23,614
BALANCE AT 31 DECEMBER 2018	46,775	46,775	23,614

The total authorised number of ordinary shares is Shs 46.7 million (2017: 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

The Bank shareholders are as follows;

SHAREHOLDING	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA - KENYA LTD.	43.24%	KENYA
AFRICAN FINANCIAL HOLDING (AFH) - OCEAN INDIEN	37.96%	MAURITIUS
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	11.04%	THE NETHERLANDS
CENTRAL HOLDINGS LTD.	7.76%	UGANDA
TOTAL	100.00%	

29. Analysis of cash and cash equivalents

	2018 SHS M	2017 SHS M
CASH AND BALANCES WITH BANK OF UGANDA (NOTE 14)	81,711	107,398
DEPOSITS AND BALANCES DUE FROM OTHER BANKS (NOTE 15)	66,592	63,291
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 32 (A))	48,571	26,184
TOTAL	196,874	196,873

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 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 BANK OF AFRICA - UGANDA.

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

	2018 SHS M	2017 SHS M
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (MILLION SHS)	15,148	16,673
WEIGHTED AVERAGE NUMBER OF PAID UP ORDINARY SHARES (THOUSANDS)	46,775	46,775
EARNINGS PER SHARE (EXPRESSED IN SHS PER SHARE)	323.85	356.45

There were no potentially dilutive shares outstanding at 31 December 2018 (2017: Nil).

31. Dividends

	2018		2017	
PROPOSED DIVIDENDS	PER SHARE SHS M	TOTAL SHS M	PER SHARE SHS M	TOTAL SHS M
PROPOSED DIVIDENDS	181.36	8,483	178.23	8,337

At the annual general meeting to be held in 2019, a dividend of Shs 181.36 per share amounting to Shs 8,483 million in total is to be proposed (2017: 178.23). The payment of dividends is subject to withholding tax at rates depending on the tax status or residence of the recipient.

32. Related party balances

The ultimate parent company of the Bank is BMCE Bank International, a Company incorporated in Morocco. The following companies are related to BANK OF AFRICA – UGANDA Ltd. through common directorship or shareholdings. The following transactions were carried out with those related parties:

a. Due from group companies

	2018 SHS M	2017 SHS M
BANK OF AFRICA – RDC	9,266	12,821
BOA-FRANCE	10,728	12,746
BANK OF AFRICA – KENYA	450	32
BANK OF AFRICA – GHANA	16,775	-
BANK OF AFRICA – TANZANIA	40	39
BANK OF AFRICA – RWANDA	15	93
BMCE BANK OF AFRICA	11,297	453
TOTAL	48,571	26,184

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%.

b. Amounts due to group companies

	2018 SHS M	2017 SHS M
BANK OF AFRICA – MER ROUGE	54,399	53,386
BANK OF AFRICA – KENYA	28	8,666
BANK OF AFRICA – TANZANIA	13	7
BANK OF AFRICA – RDC	2,195	243
BANK OF AFRICA – RWANDA	1,748	467
BMCE BANK OF AFRICA	20	20
TOTAL	58,403	62,989

These are current account balances and medium term borrowings (1 year) measured at amortised cost and have a weighted average interest rate of 3.75%. The medium term borrowings are held for direct participation on credit facilities.

c. Related party balances

	2018 SHS M	2017 SHS M
DEPOSITS FROM DIRECTORS AND SHAREHOLDERS	40	120
LOANS TO DIRECTORS	396	22
ADVANCES TO STAFF	8,761	6,655
TOTAL	9,157	6,677

The loans to directors above relates to facilities advanced to Mr. John Carruthers and Kiwanuka Mohan Musisi and related parties at interest rates between 23% and 29% for UGX facilities and 11% for USD facilities respectively. These facilities are performing on their instalment obligations.

d. Related party transactions

	2018 SHS M	2017 SHS M
INTEREST PAID TO RELATED PARTIES/DIRECTORS		
BANK OF AFRICA – MER ROUGE	1,605	2,411
BANK OF AFRICA – KENYA	5	-
TOTAL	1,610	2,411
INTEREST EARNED FROM RELATED PARTIES		
BANK OF AFRICA – KENYA	19	114
BANK OF AFRICA – TANZANIA	7	42
BANK OF AFRICA – RDC	313	373
BANK OF AFRICA – GHANA	105	51
BMCE BANK INTERNATIONAL	103	-
TOTAL	547	580
DIRECTORS' REMUNERATION:		
DIRECTORS' FEES	745	735
OTHER EMOLUMENTS	5,671	5,212
TOTAL	6,416	5,947
KEY MANAGEMENT COMPENSATION:		
SALARIES AND SHORT-TERM BENEFITS	5,116	4,684
TERMINAL BENEFITS	337	282
TOTAL	5,453	4,966

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

	2018 SHS M	2017 SHS M
NUMBER OF BORROWERS	2	3
AGGREGATE AMOUNT	56,336	106,373

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:

	2018 SHS M	2017 SHS M
TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	23,271	25,403
PERFORMANCE BONDS AND STANDBYS	103,082	88,988
LESS: LOSS IMPAIRMENT ALLOWANCE	(534)	-
TOTAL	125,819	111,390

Non-trade contingent liabilities

There were outstanding legal proceedings against the Bank as at 31 December 2018 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 1,097 million (2017: Shs 837 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:

	2018 SHS M	2017 SHS M
COMMITMENTS TO LEND	17,289	13,374
LESS: IMPAIRMENT LOSS ALLOWANCE	(56)	-
	17,233	13,374
CURRENCY SWAPS AND FORWARDS PAYABLE	-	8,961