# BANK OF AFRICA – UGANDA

ANNUAL REPORT

# 2011

BANK OF AFRICA UGANDA

GROUPE BANK OF AFRICA

Pour l'essor de notre continent.

*Developing our continent.*

# Table of contents



## Activity Report 2011



## Reports and Financial Statements 2011



## Financial Statements 2011





### BANK OF AFRICA – NIGER

8 Branches in Niamey.
8 Regional Branches.

### BANK OF AFRICA – MALI

15 Branches in Bamako.
8 Regional Branches and 2 Local Branches.

### BANK OF AFRICA – SÉNÉGAL

18 Branches in Dakar.
7 Regional Branches.

### BANK OF AFRICA – BURKINA FASO

14 Branches in Ouagadougou.
11 Regional Branches.

### BANK OF AFRICA – CÔTE D'IVOIRE

12 Branches in Abidjan.
8 Regional Branches and 1 Local Branch.

### BANK OF AFRICA – GHANA

14 Branches in Accra.
5 Regional Branches.

### BANK OF AFRICA – BÉNIN

23 Branches in Cotonou.
19 Regional Branches.

### BANQUE DE L'HABITAT DU BÉNIN

1 Branch in Cotonou.

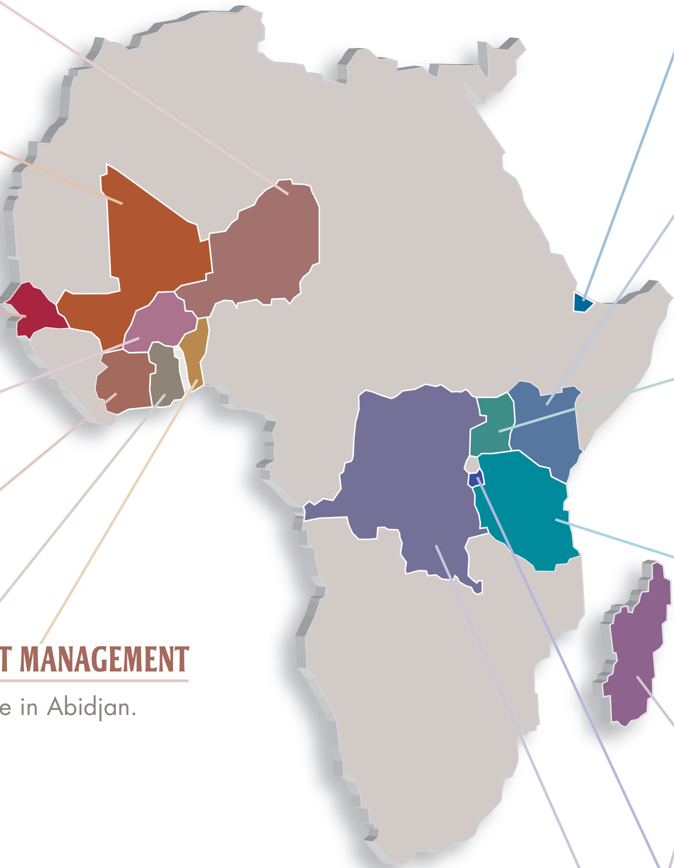
# Group Banks and Subsidiaries

## BOA-FRANCE

4 Branches in Paris.
1 Branch in Marseille.

## BOA GROUP REPRESENTATIVE OFFICE

Head Office in Paris, France.



## BANK OF AFRICA – MER ROUGE

3 Branches in Djibouti.

## BANK OF AFRICA – KENYA

10 Branches in Nairobi.
12 Regional Branches.

## BANK OF AFRICA – UGANDA

19 Branches in Kampala.
11 Regional Branches.

## BANK OF AFRICA – TANZANIA

10 Branches in Dar es Salaam.
6 Regional Branches.

## BANK OF AFRICA – MADAGASCAR

20 Branches in Antananarivo.
47 Regional Branches.

## BANQUE DE CRÉDIT DE BUJUMBURA

(BCB) Integrated into BOA network in 2008.

7 Branches and 3 Counters in Bujumbura.
11 Branches and 2 Counters in Provinces.

## BANK OF AFRICA – RDC

7 Branches in Kinshasa.
1 Regional Branch.

## AGORA

## BOA-ASSET MANAGEMENT

Head Office in Abidjan.

## ÉQUIPBAIL – MADAGASCAR

## ACTIBOURSE

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

## AÏSSA

## ATTICA

## BANK OF AFRICA FOUNDATION

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

# BANK OF AFRICA Group strong points

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

**GROUP TURNOVER 2011**

**± 385 M€**

# 1,200,000 bank accounts

## A strong network

More than 4,500 people at your service.

About 340 dedicated operating and service support offices in 15 countries.

A continuously expanding base of Automated Teller Machines and Electronic Payment Terminals, numbering around 450 at 30 June 2012.

Close to one million two hundred thousand bank accounts.

## A wide and varied offer

Full range of banking and financial services.

An attractive range of bank insurance products.

Tailored solutions for all financing issues.

Successful financial engineering.

## A leading banking partner, BMCE Bank,

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

## Strategic partners, including:

Proparco,

International Finance Corporation (IFC - World Bank Group),

West African Development Bank (BOAD),

Netherlands Development Finance Company (FMO),

Belgium Investment Company for Developing Countries (BIO),

and investment fund Aureos.

## Unique experience in Africa

Continuous development for 30 years.

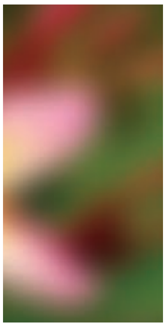
# Main products of the Bank

| BOA ENGLISH SPEAKING NETWORK | | BOA-UGANDA |
|---|---|---|
| **Accounts** | Current Account (Local & Foreign Currency) | ▬ |
| | Goodwill Account | |
| | Remunerated Current Account | ▬ |
| | Salary Account | |
| | Personal Current Account | ▬ |
| | Wakili Current Account | |
| | Jipange Account | |
| **Investment Products** | Call Deposits Account | ▬ |
| | Chama Account | |
| | Children Savings Account « Tots 2 Teenz Account » | ▬ |
| | Classic Saving Account | ▬ |
| | Family Savings Account | |
| | Forexave Account | ▬ |
| | Ero Savings Account | ▬ |
| | Gold Plus Account | ▬ |
| | Investment Plan Account | |
| | Ordinary Savings Account | ▬ |
| | Fixed Deposit Account | ▬ |
| | Premium Plus Account | |
| | Reward Saving Account | ▬ |
| | School Fees Account | ▬ |
| | SESAME Savings Account | ▬ |
| | Term Deposit | ▬ |
| **Electronic Banking** | B-SMS / B-Phone | ▬ |
| | B-Web | ▬ |
| | SESAME ATM Card | ▬ |
| | TOUCAN Card | |
| **M-Payment** | M-Pesa | |
| | MTN Mobile Money | ▬ |
| **Loans** | 2 in 1 loan | ▬ |
| | Bridging Overdraft | ▬ |
| | Instant Cash | ▬ |
| | Motor Cycle Loan | ▬ |
| | Motor Vehicle Loan | ▬ |
| | Personal Loans | ▬ |
| | Personal Motor Loan | |
| | Salary Advance | |
| | Schools Fees Loan | ▬ |
| | Super Kikapu | ▬ |
| | Tax Bridging Finance | ▬ |
| | Warehouse Receipt Financing | ▬ |
| **Transfers & Changes** | Foreign Exchange | ▬ |
| | Moneygram | ▬ |
| | Travellers Cheques | |
| | Western Union | |
| | MTN Mobile Money | |
| **Complementary Products & Services** | Banker's Cheques | ▬ |
| | e-tax Payments | ▬ |
| | Utility Bill Payments « e-Water Payments » | ▬ |
| **BOA Company Services:** BOA-UGANDA thus offers a wide range of products and services to the attention of Corporates and SMEs, organizations institutions and professionals. | | ▬ |



# ACTIVITY REPORT
# 2011

# Comments from the Managing Director




The Ugandan economy remained resilient in 2011 despite bouts of both domestic and external shocks. The latter half of the year was characterized by an unprecedented set of challenges including high inflation, high interest rates and a steady depreciation of the Uganda Shilling. The year saw inflation touch its highest in over two decades, soaring from 5.0% in January 2011 to 30.5% in October 2011 before dropping to 27% in December 2011. This high inflation is likely to continue exerting pressure on household disposable income and will remain a major challenge to the macro-economic stability objective in 2012.

In a bid to bring the high inflationary pressure under control, the Central Bank has implemented a tight monetary policy since January 2011. Because of the tight monetary policy stance, economic growth is expected to slow to about 5.0% in 2011/12 as the decline in demand is expected to reduce real growth in output of the industrial and services sectors.

The liquidity in the banking system has largely been tight since January 2011. Consequently, the banking sector experienced an upsurge in interest rates on loans to close at 30% per annum, up from an average of 15% per annum in 2010. In a bid to scheme available deposits in the market, several banks rolled out attractive deposit mobilization campaigns. This trend is likely to continue in 2012 as liquidity conditions are not expected to ease.

Despite the above challenges in the economy and the financial sector in particular, BANK OF AFRICA – UGANDA (BOA-UGANDA) continued with its aggressive business outreach program and opened seven new branches (Kawempe, Kololo, Luzira, Nansana, Nateete, Hoima and Patongo) taking its network to 28 branches. To support the growing business and customer needs, the shareholders increased the Bank's capital base by a further UGX 12 billion. The Bank also negotiated new credit lines from key partners to further support its growth strategy. We continued to bring new products to the market, among others, e-Utility Payments, Tax Bridging Finance and Warehouse Receipt Financing. The Bank also engaged in a massive deposit mobilization campaign in the last quarter called 'VIMBA' that rewarded customers through monthly draws.

Consequently, BOA-UGANDA's asset footing increased by 45% to UGX 431 billion with notable growth in loans and advances. Customer deposits increased by 26% to UGX 276 billion. Net profit for the year rose by 71% to UGX 6.2 billion, mainly attributed to asset growth in the first half of the year.

As part of our commitment to our community, the Bank was engaged in several programs, including support for initiatives aimed at boosting entrepreneurship and financial abilities for women, promoting financial education to the young population, and several welfare programs under our customer appreciation week initiative.

While the 2012 global and domestic economic outlook remains delicately poised, we are confident that the various policies being implemented by the government through the Central Bank of Uganda will minimize the shocks without significant strain on projected economic growth. We remain committed to promoting the growth of the financial sector in Uganda and continued contribution to the economic development of this country as a whole.

The BOA-UGANDA team is grateful to all stakeholders, most especially our customers who continue to express their loyalty and confidence in us. We value the support all of you have generously given to the Bank and assure you of our continued commitment to support your business growth strategies as we meet and overcome the challenges of 2012 together. You are the mainstay of our strength.

To the BOA-UGANDA team BRAVO!

**Edigold MONDAY**

Managing Director

# Highlights 2011

2011 BOA Meetings for senior officers of the Group in Dakar.

Launch of e-Water Payment services.

## JANUARY
Launch of e-Water Payment services with National Water & Sewerage Corporation.

## APRIL
Tots 2 Teenz re-launched to further attract cheap deposits and grow subscriber base.

## MAY
Participation in the BANK OF AFRICA 2011 network management meetings, in Dakar, Senegal.

Quick Financing facility launched to the down-town business community to cater for customers' instant need for financing.

## JUNE
Held our annual Customer Care week across all the branches.

## JULY
Stock based Tax Bridging service introduced to the business community to ease access to financing. A no of awareness workshops were done to drive sensitization.

## AUGUST
Warehouse Receipt financing launched to primarily support the agricultural sector.

Key Sponsor of biggest Kids' fun festival - 'My Kid is a Superstar' that attracted close to 2,000 kids.

## SEPTEMBER
Launch of Bank's biggest ever mass deposit mobilization campaign – VIMBA.

4 new branches were opened: Luzira, Kololo, Hoima & Patongo.

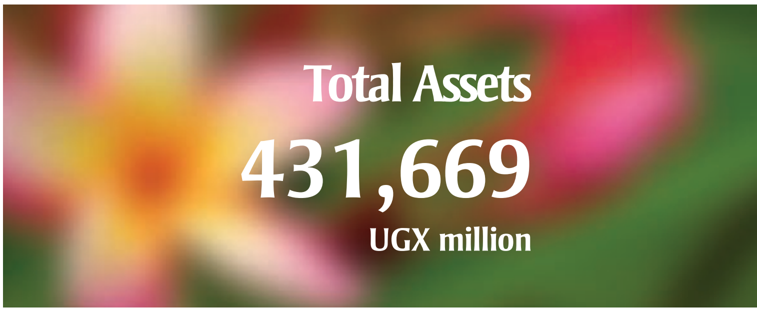
## OCTOBER
Participation in the BANK OF AFRICA 2011 Directors meetings, in Marrakech, Morocco, which was also attended by one hundred BOA customers.

Agency partnership established with MTN to drive MTN Mobile Money.

## DECEMBER
2 new branches were added to the BOA-UGANDA network: Nateete & Nansana.

# Key figures 2011

BANK OF AFRICA
2011 Directors
meetings, in Marrakech.




| ACTIVITY | on 31/12/2011 |
|---|---|
| Number of Deposits* | 47,094 |
| Number of Loans* | 17,190 |

| INCOME | on 31/12/2011 |
|---|---|
| Net interest income* | 21,505 |
| Net operating income* | 36,301 |
| Operating expenses* | (29,508) |
| Profit before tax | 6,793 |
| Profit after tax | 6,246 |

| STRUCTURE | on 31/12/2011 |
|---|---|
| Total assets* | 431,669 |
| Customer Deposits* | 278,184 |
| Loans and advances to customers* | 242,792 |
| Number of Employees | 287 |

(*) In UGX millions (Euro 1 = 3,217.8 UGX, as at 31st Dec 2011)

# Corporate Social Responsibility Initiatives

***BANK CSR STRATEGY***

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

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

***2011 ACTIVITIES***

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

## SOCIAL

**Sponsorship of Financial Education in Primary Schools:** Despite the rapid expansion of banking and financial services in Uganda over the last five years, financial inclusion in Uganda remains low at all ages and social groups, with less than 30% of the adult population utilizing formal financial services. This is partly attributed to the low levels of financial literacy. Financial literacy is about empowering and educating consumers so that they are knowledgeable about finance in a way that is relevant to their lives and enables them to use this knowledge to evaluate products and make informed decisions. At BOA-UGANDA, we believe that in order to have positive financial behavior, financial literacy has to start at an early age. That is why the Bank continued its sponsorship of the Junior Achievement financial literacy program in 13 primary schools reaching over 1,200 pupils. The program is conducted in partnership with Junior Achievement Uganda. This program brings real-world educational experiences to the classroom to compliment the school curricula and make studying not only relevant but enjoyable. The program was conducted between July and September 2011.

To guide the pupils through the program, BANK OF AFRICA staff volunteer to assist the school teachers in delivery of the sessions at the selected schools. The program has helped young people to gain the financial knowledge, life skills, values and personal characteristics to excel in school, careers and the society.


**COMMUNITY ACTIVITIES**

1 - A BOA-UGANDA staff volunteer conducting a JA session at one of the beneficiary schools.

2 - Bank staff brings some cheer to disadvantaged children at a Babies home.

**Support to Iruhuura Vocational School in Kabarole:** Young people in the rural, often marginalised communities in Uganda live at or just below poverty level. Their access to education, even at primary level is poor, so they arrive as young adults with little or no skills to enable them to lead meaningful, decent lives. They are unable to maintain their own families or to contribute positively to their own communities. Iruhuura Vocational School is a community founded institution in Kabarole, Western Uganda that is helping to deal with the problem of high unemployment among the local youth by providing functional skills. In June 2011, BOA-UGANDA facilitated the school with an assortment of tools and equipment that provided a life line to the institution and ensured continued provision of this critical service to the local community.

**Community activities:** BOA-UGANDA aims to be a socially responsible employer by encouraging its staff to become involved in community initiatives both through their own efforts and through a range of programmes managed by the Bank. That is why the Bank organized a staff community day as part of the customer week event that ran from 20th June to 25th June 2011. During the Bank Community Day the entire Bank's branches and staff were involved in social activities in their localities. Some of the activities included, among others, helping out at the local hospitals, clearing the streets of litter, painting of zebra crossings near schools, visiting and donating to the disadvantaged communities especially Children's homes. These activities helped to reinforce the Bank's image as a visible and contributing member of society.

## ECONOMIC

**Sponsorship of the Women Entrepreneurs' Month:** An estimated 1.4 million women either own an enterprise younger than 42 months or are in the process of trying to start an enterprise. Yet, very few women-owned enterprises are able to grow beyond the micro level, due to a range of impeding socio-economic and cultural factors that adversely affect women's access to education, training, management development, credit, market information, representation, and other economic resources and opportunities.

**Women's Entrepreneurs' Month (MOWE):** In order to unleash the potential of women-owned enterprises in Uganda and to enable women entrepreneurs to contribute more substantially to the country's objectives for economic growth, BOA-UGANDA partnered with the Uganda Women Entrepreneurs' Association (UWEAL) to sponsor the Women's Entrepreneurs' Month (MOWE) in November 2011.

During MOWE, a combination of different events ranging from enterprise skills training in gender sensitive business development services, training workshops on governance of Women Entrepreneurs Associations, small business exhibitions by women entrepreneurs, among others, were implemented. These events are aimed at creating awareness of the need for an enabling business environment for women entrepreneurs, promoting the role of women's entrepreneurship development in national development, recognizing the potential and achievements of women entrepreneurs in generating employment and incomes, and showcasing women entrepreneur role models.

### COMMUNITY ACTIVITIES

3 - Branch staff restore the shine to a back road in the branch neighborhood.

### MOWE

4 - A training workshop in progress during the Women's Entrepreneurs' Month, held in November 2011.

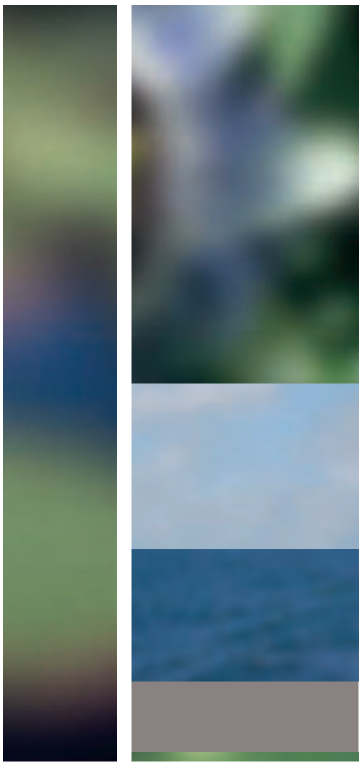
# Board of Directors

The Directors who held office during the year and to the date of 31 December 2011 were:

John CARRUTHERS, Chairman
Edigold MONDAY
Arthur ISIKO
Vincent de BROUWER
Mohan M. KIWANUKA
Paul DERREUMAUX
Shakir MERALI
Abdelkabir BENNANI
Peter LOCK
Mohamed BENNANI

# Capital

The authorized share capital of the Bank is UGX 25,000,000,000 divided into 25,000,000 ordinary shares with par value of UGX 1,000 each.
The issued share capital is Ugx 20,918,915,885 as at 31 December 2011.
The following was the Bank's shareholding structure as at 31 December 2011:



| | |
|---|---|
| 50.01% | BANK OF AFRICA – KENYA |
| 21.88% | AUREOS EAST AFRICA FUND LLC |
| 17.51% | NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO) |
| 9.39% | CENTRAL HOLDINGS UGANDA Ltd. |
| 1.21% | AFRICAN FINANCIAL HOLDING (AFH) - OCEAN INDIEN |

# Report and Financial Statements

## for the year ended 31 December 2011

# Report and Financial Statements

## Corporate Information

### DIRECTORS

| | | |
|---|---|---|
| | JOHN CARRUTHERS | CHAIRMAN |
| | EDIGOLD MONDAY | MANAGING DIRECTOR |
| | ARTHUR ISIKO | EXECUTIVE DIRECTOR |
| | VINCENT DE BROUWER | NON-EXECUTIVE DIRECTOR |
| | MOHAN MUSISI KIWANUKA | NON-EXECUTIVE DIRECTOR |
| | PAUL DERREUMAUX | NON-EXECUTIVE DIRECTOR |
| | SHAKIR MERALI | NON-EXECUTIVE DIRECTOR |
| | ABDELKABIR BENNANI | NON-EXECUTIVE DIRECTOR |
| | PETER LOCK | NON-EXECUTIVE DIRECTOR |
| | MOHAMED BENNANI | NON-EXECUTIVE DIRECTOR |

### COMPANY SECRETARY

**Rehmah NABUNYA**
CERTIFIED PUBLIC SECRETARY (UGANDA)
PLOT 45 JINJA ROAD
P.O. BOX 2750
KAMPALA, UGANDA

### AUDITORS

**DELOITTE & TOUCHE**
CERTIFIED PUBLIC ACCOUNTANTS (UGANDA)
RWENZORI HOUSE, 1 LUMUMBA AVENUE
P.O. BOX 10314
KAMPALA, UGANDA

### REGISTERED OFFICE

**BANK OF AFRICA – UGANDA LIMITED**
PLOT 45 JINJA ROAD
P.O. BOX 2750
KAMPALA, UGANDA

## BRANCHES

### MAIN BRANCH
PLOT 45, JINJA ROAD
P.O. BOX 2750 – KAMPALA

### BBIRA BRANCH
PLOT 2371, BBIRA
P.O. BOX 2750 – KAMPALA

### EQUATORIAL BRANCH
PLOT 84/86, BEN KIWANUKA STREET
P.O. BOX 2750 – KAMPALA

### KABALAGALA BRANCH
PLOT 559, GGABA ROAD – KABALAGALA
P.O. BOX 2750 – KAMPALA

### KAMPALA ROAD BRANCH
PLOT 48, KAMPALA ROAD
P.O. BOX 2750 – KAMPALA

### KAWEMPE BRANCH
PLOT 125, BOMBO ROAD
P.O. BOX 2750 – KAMPALA

### KOLOLO BRANCH
PLOT 9, COOPER ROAD (KISEMENTI)
P.O. BOX 2750 – KAMPALA

### LUZIRA BRANCH
PLOT 1329/1330, PORTBELL
P.O. BOX 2750 – KAMPALA

### MUKONO BRANCH
PLOT 13, KAMPALA ROAD
P.O. BOX 2750 – KAMPALA

### NAKIVUBO BRANCH
PLOT 15, NAKIVUBO ROAD
P.O. BOX 2750 – KAMPALA

### NALUKOLONGO MINI BRANCH
PLOT 4, WANKULUKUKU ROAD
P.O. BOX 2750 – KAMPALA

### NAMASUBA BRANCH
PLOT 4010, NAMASUBA – ENTEBBE ROAD
P.O. BOX 2750 – KAMPALA

### NANSANA BRANCH
PLOT 5390, NANSANA
P.O. BOX 2750 – KAMPALA

### NATEETE BRANCH
PLOT 1-2, OLD MASAKA ROAD
P.O. BOX 2750 – KAMPALA

### NDEEBA BRANCH
PLOT 1024, MASAKA ROAD – NDEEBA
P.O. BOX 2750 – KAMPALA

### NTINDA BRANCH
PLOT 49, NTINDA ROAD – NTINDA
P.O. BOX 2750 – KAMPALA

### OASIS BRANCH
OASIS MALL
PLOT 88/94, YUSUF LULE ROAD
P.O. BOX 2750 – KAMPALA

### PARK BRANCH
MUKWANO CENTRE,
PLOT 40/46, BEN KIWANUKA STREET
P.O. BOX 2750 – KAMPALA

### WANDEGEYA BRANCH
KM PLAZA, PLOT 85 BOMBO ROAD
P.O. BOX 2750 – KAMPALA

### ARUA BRANCH
PLOT 19, AVENUE ROAD
P.O. BOX 894 – ARUA

### ENTEBBE BRANCH
PLOT 16, KAMPALA ROAD
P.O. BOX 2750 – KAMPALA

### FORT PORTAL BRANCH
PLOT 14, BWAMBA ROAD
FORT PORTAL

### GULU BRANCH
PLOT 11, AWERE ROAD
P.O. BOX 921 – GULU

### HOIMA BRANCH
PLOT 13, WRIGHT ROAD – HOIMA

### JINJA MAIN BRANCH
PLOT 1, MAIN STREET
P.O. BOX 2095 – JINJA

### JINJA CLIVE ROAD BRANCH
PLOT 18, CLIVE ROAD EAST
P.O. BOX 2095 – JINJA

### LIRA BRANCH
PLOT 1A, BALLA ROAD
P.O. BOX 292 – LIRA

### MBALE BRANCH
PLOT 26, CATHEDRAL AVENUE
P.O. BOX 553 – MBALE

### MBARARA BRANCH
PLOT 1, MBAGUTA ROAD
P.O. BOX 1163 – MBARARA

### PATONGO BRANCH
PLOT 33, DOLLO ROAD
PATONGO

# Reports and Financial Statements

## Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 December 2011, which disclose the state of affairs of BANK OF AFRICA – UGANDA Limited ("the Bank").

### PRINCIPAL ACTIVITIES

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

| FINANCIAL RESULTS | USHS MILLIONS |
|---|---|
| PROFIT BEFORE TAXATION | 6,793 |
| TAXATION CHARGE | (547) |
| PROFIT FOR THE YEAR | 6,246 |

### CORPORATE GOVERNANCE

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

#### Board of Directors

BANK OF AFRICA – UGANDA Ltd. has a broad-based Board of Directors. The board functions either as a full board or through various committees constituted to oversee specific operational areas. The Board has constituted four committees. These are the Risk Management Committee, Assets and Liabilities Management Committee, Staff and Compensation Committee, and the Audit Committee. All board committees are constituted and chaired by non-executive Directors. As at 31 December 2011, the Board of Directors consisted of 10 members.

| COMMITTEE | HEAD | MEMBERSHIP | MEETING FREQUENCY |
|---|---|---|---|
| RISK MANAGEMENT | NON-EXECUTIVE DIRECTOR | 4 NON-EXECUTIVE MEMBERS<br>1 EXECUTIVE MEMBER | QUARTERLY |
| ASSETS AND LIABILITIES MANAGEMENT | NON-EXECUTIVE DIRECTOR | 4 NON-EXECUTIVE MEMBERS<br>1 EXECUTIVE MEMBER | QUARTERLY |
| STAFF AND COMPENSATION | NON-EXECUTIVE DIRECTOR | 2 NON-EXECUTIVE MEMBERS<br>2 EXECUTIVE MEMBER | QUARTERLY |
| AUDIT | NON-EXECUTIVE DIRECTOR | 4 NON-EXECUTIVE MEMBERS | QUARTERLY |

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

The Staff,
at BOA-UGANDA
head office,
in Kampala.

## *DIVIDEND*

The Directors recommend the payment of a dividend as detailed in Note 32.

## *DIRECTORS*

The present membership of the Board is shown on page 14.

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

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

## *AUDITORS*

DELOITTE & TOUCHE, have expressed their willingness to continue in office in accordance with Section 159(2) of the Companies Act (Cap.110), subject to approval by the Bank of Uganda in accordance with the requirement of section 62 (3) of the Ugandan Financial Institutions Act, 2004.

By order of the board

**Rehmah NABUNYA**
Secretary

Kampala
18 April 2012

# Report and Financial Statements

## Statement of Directors' Responsibilities

in respect of the annual financial statements for the year ended 31 december 2011.

Customers' Service, at BOA-UGANDA head office, in Kampala.

The Ugandan Companies Act requires Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of the operating results of the bank for that year. It also requires the Directors to ensure the bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank. They are also responsible for safeguarding the assets of the bank.

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

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

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

Signed on behalf of the Board of Directors by;

| **Edigold MONDAY** | **John CARRUTHERS** | **Arthur ISIKO** |
|---|---|---|
| Director | Director | Director |

18 April 2012

# Independent Auditors' Report

to the members of BANK OF AFRICA – UGANDA Ltd.

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of BANK OF AFRICA – UGANDA Ltd. set out on pages 22 to 69 which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the summary of significant accounting policies and other explanatory notes.

### *Directors' responsibility for the Financial Statements*

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

Equatoria Branch (in Kampala), banking hall.

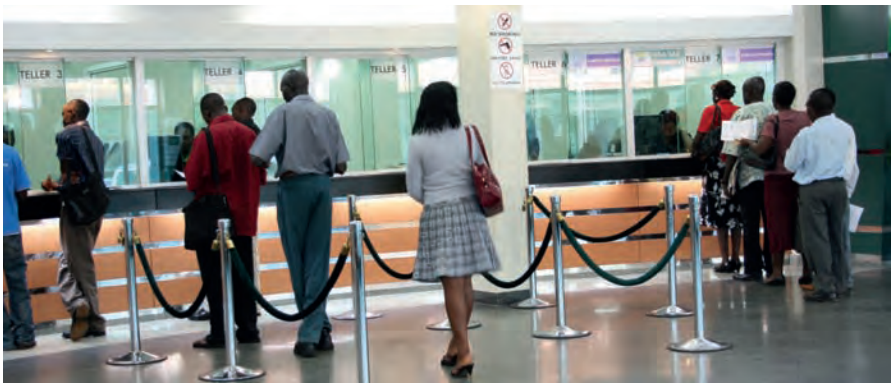
### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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



Main Branch (in Kampala), banking hall.

## *Opinion*

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

## REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

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

**DELOITTE & TOUCHE**

**Certified Public Accountants (Uganda)**

Kampala

18 April 2012

# Financial Statements

## for the year ended 31 December 2011

# Financial Statements

## for the year ended 31 December 2011

### Statement of comprehensive income

| | NOTES | 2011 | 2010 |
|---|---|---|---|
| | | USHS MILLIONS | USHS MILLIONS |
| INTEREST INCOME | 7 | 39,998 | 27,981 |
| INTEREST EXPENSE | 8 | (18,493) | (11,062) |
| **NET INTEREST INCOME** | | **21,505** | **16,919** |
| FEE AND COMMISSION INCOME | 9 | 11,426 | 8,038 |
| FEE AND COMMISSION EXPENSE | 10 | (1,159) | (1,168) |
| LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS | | (91) | (55) |
| GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS | | 292 | 416 |
| NET FOREIGN EXCHANGE GAINS | 11 | 3,434 | 1,706 |
| OTHER OPERATING INCOME | | 894 | 256 |
| **NET OPERATING INCOME** | | **36,301** | **26,115** |
| NET IMPAIRMENT LOSS ON LOANS AND ADVANCES | 19(B) | (1,443) | (1,410) |
| OPERATING EXPENSES | 13 | (28,065) | (21,249) |
| PROFIT BEFORE TAXATION | | 6,793 | 3,456 |
| TAXATION (CHARGE)/CREDIT | 14(A) | (547) | 195 |
| **PROFIT FOR THE YEAR** | | **6,246** | **3,651** |
| OTHER COMPREHENSIVE INCOME | | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **6,246** | **3,651** |
| **BASIC AND DILUTED EARNINGS PER SHARE (USHS PER SHARE)** | **33** | **521** | **320** |

## Statement of financial position

| | NOTES | 2011 | 2010 |
|---|---|---|---|
| | | USHS MILLIONS | USHS MILLIONS |
| **ASSETS** | | | |
| CASH AND BALANCES WITH BANK OF UGANDA | 15 | 47,552 | 28,298 |
| DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS | 16 | 42,995 | 17,696 |
| AMOUNTS DUE FROM GROUP COMPANIES | 34(A) | 8,941 | 3,341 |
| GOVERNMENT SECURITIES | 17(C) | 63,440 | 72,488 |
| DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS | 17(D) | 195 | - |
| LOANS AND ADVANCES TO CUSTOMERS | 18(A) | 242,792 | 155,290 |
| OTHER ASSETS | 20 | 4,962 | 2,690 |
| TAX RECOVERABLE | 14(C) | 683 | 617 |
| PROPERTY AND EQUIPMENT | 21 | 16,814 | 14,280 |
| OPERATING LEASE PREPAYMENTS | 22 | 1,075 | 1,100 |
| INTANGIBLE ASSET | 23 | 1,015 | 1,350 |
| DEFERRED TAX ASSET | 28 | 1,205 | 814 |
| **TOTAL ASSETS** | | **431,669** | **297,964** |
| **EQUITY AND LIABILITIES** | | | |
| **LIABILITIES** | | | |
| CUSTOMER DEPOSITS | 24 | 278,184 | 220,611 |
| DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS | 25 | 38,554 | 13,535 |
| AMOUNTS DUE TO GROUP COMPANIES | 34(B) | 12,619 | 9,519 |
| DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS | 17(C) | - | 3 |
| OTHER BORROWINGS | 26 | 51,657 | 18,552 |
| OTHER LIABILITIES | 27 | 5,087 | 3,516 |
| **TOTAL LIABILITIES** | | **386,101** | **265,736** |
| **EQUITY** | | | |
| SHARE CAPITAL | 29 | 20,919 | 8,666 |
| SHARE PREMIUM | 29 | 6,086 | 9,420 |
| REGULATORY RESERVE | 19(C) | 2,465 | 1,559 |
| RETAINED EARNINGS | | 16,098 | 12,583 |
| **SHAREHOLDERS' FUNDS** | | **45,568** | **32,228** |
| **TOTAL EQUITY AND LIABILITIES** | | **431,669** | **297,964** |

The financial statements on pages 22 to 69 were approved by the Board of Directors on 18 April 2012 and signed on its behalf by:

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

# Financial Statements

## for the year ended 31 December 2011

### Statement of changes in equity

| | SHARE CAPITAL | SHARE PREMIUM | REGULATORY RESERVE* | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|---|
| | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS |
| **2010** | | | | | |
| AT 1 JANUARY 2010 | 7,508 | 6,538 | 1,400 | 10,752 | 26,198 |
| PROFIT FOR THE YEAR | - | - | - | 3,651 | 3,651 |
| BONUS ISSUE OF SHARES (NOTE 30) | 1,158 | 2,882 | - | - | 4,040 |
| TRANSFER TO REGULATORY RESERVE GENERAL PROVISION (NOTE 19(C)) | - | - | 159 | (159) | |
| FINAL DIVIDEND PAID FOR 2009 (NOTE 32) | - | - | - | (1,661) | (1,661) |
| AT 31 DECEMBER 2010 | 8,666 | 9,420 | 1,559 | 12,583 | 32,228 |
| **2011** | | | | | |
| AT 1 JANUARY 2011 | 8,666 | 9,420 | 1,559 | 12,583 | 32,228 |
| PROFIT FOR THE YEAR | - | - | - | 6,246 | 6,246 |
| BONUS ISSUE OF SHARES (NOTE 30) | 3,334 | (3,334) | - | - | - |
| RIGHTS ISSUE NOT YET ALLOTTED (NOTE 30) | 8,919 | - | - | - | 8,919 |
| TRANSFER TO REGULATORY RESERVE GENERAL PROVISION (NOTE 19(C)) | - | - | 906 | (906) | - |
| FINAL DIVIDEND PAID FOR 2010 (NOTE 32) | - | - | - | (1,825) | (1,825) |
| AT 31 DECEMBER 2011 | 20,919 | 6,086 | 2,465 | 16,098 | 45,568 |

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

## Statement of cash flows

| | NOTES | 2011<br>USHS MILLIONS | 2010<br>USHS MILLIONS |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| INTEREST RECEIPTS | | 39,608 | 27,409 |
| INTEREST PAYMENTS | | (18,914) | (9,766) |
| NET FEE AND COMMISSION RECEIPTS | | 10,267 | 6,870 |
| OTHER INCOME RECEIVED | | 4,620 | 2,379 |
| RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF | 19(B) | 2,191 | 4,087 |
| PAYMENTS TO EMPLOYEES AND SUPPLIERS | | (24,604) | (18,677) |
| INCOME TAX PAID | 14(C) | (1,004) | (928) |
| CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES | | 12,164 | 11,374 |
| CHANGES IN OPERATING ASSETS AND LIABILITIES: | | | |
| - LOANS AND ADVANCES | | (90,904) | (45,369) |
| - CASH RESERVE REQUIREMENT | | 893 | (6,559) |
| - OTHER ASSETS | | (1,317) | (178) |
| - CUSTOMER DEPOSITS | | 57,668 | 58,709 |
| - DEPOSITS DUE TO OTHER BANKS | | 25,160 | (891) |
| - AMOUNTS DUE TO GROUP COMPANIES | | 3,100 | 8,898 |
| - OTHER LIABILITIES | | 8 | 788 |
| - GOVERNMENT SECURITIES | | 23,194 | (23,689) |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | | **29,966** | **4,081** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| PURCHASE OF PROPERTY AND EQUIPMENT | 21 | (5,201) | (5,166) |
| PURCHASE OF INTANGIBLE ASSETS | 23 | (43) | (544) |
| PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT | | 52 | 13 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(5,192)** | **(5,697)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| ISSUE OF ORDINARY SHARES | 30 | 8,919 | 4,040 |
| PROCEEDS FROM/(REPAYMENT OF) BORROWED FUNDS | | 33,290 | (1,672) |
| DIVIDENDS PAID | 32 | (1,825) | (1,661) |
| **NET CASH GENERATED FROM FINANCING ACTIVITIES** | | **40,384** | **707** |
| **NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **65,158** | **(909)** |
| CASH AND CASH EQUIVALENTS AT START OF YEAR | | 26,683 | 27,592 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 33 | **91,841** | **26,683** |

# Notes to the Financial Statements

## 1. REPORTING ENTITY

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

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

### a) New standards and amendments to published standards effective for the year ended 31 December 2011

| Amendments and revised standards | Effective for annual periods beginning on or after |
|---|---|
| IFRS 7, Financial instruments: Disclosures – Amendments resulting from May 2010 annual improvements to IFRSs | 1 JANUARY 2011 |
| IAS 1, Presentation of Financial Statements – Amendments resulting from May 2010 annual improvements to IFRSs | 1 JANUARY 2011 |
| IAS 32, Financial Instruments: Presentation – amendments relating to classification of rights issues | 1 FEBRUARY 2010 |
| IAS 24, Related Party Disclosures – revised definition of related parties | 1 JANUARY 2011 |
| Various improvements resulting from May 2010 Annual Improvements to IFRSs | 1 JANUARY 2011 |
| **New interpretations** | |
| IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments | 1 JULY 2010 |

### b) New and amended interpretations in issue but not yet effective in the year ended 31 December 2011

| Amendments and revised standards | Effective for annual periods beginning on or after |
|---|---|
| IFRS 7, Financial Instruments: Disclosures – amendments enhancing disclosures about transfers of financial assets | 1 JULY 2011 |
| IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities | 1 JANUARY 2013 |
| IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9 | 1 JANUARY 2013 or otherwise when IFRS 9 is first applied |
| IFRS 9, Financial Instruments – Classification and Measurement of financial assets | 1 JANUARY 2015 |
| IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition | 1 JANUARY 2015 |
| IFRS 13, Fair Value Measurement | 1 JANUARY 2013 |
| IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income | 1 JULY 2012 |
| IAS 12, Income Taxes – Limited scope amendment (recovery of underlying assets) | 1 JANUARY 2012 |
| IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities | 1 JANUARY 2014 |

## c) Impact of new and amended standards and interpretations on the financial statements or the period ended 31 December, 2011 and future annual periods.

### IAS 24 Related Party Disclosures (2009)

Amends the requirements of the previous version of IAS 24 to:

- Provide a partial exemption from related party disclosure requirements for government-related entities
- Clarify the definition of a related party
- Include an explicit requirement to disclose commitments involving related parties.

### IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss
- The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.

### IFRS 9 Financial Instruments (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement.*

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

### IFRS 13 Fair Value Measurement

Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.

### Improvements to IFRSs (2010)

These amend seven pronouncements (plus consequential amendments to various others) as a result of the IASB's 2008-2010 cycle of annual improvements. Key amendments include:
- IFRS 1 - accounting policy changes in year of adoption and amendments to deemed cost (revaluation basis, regulatory assets)
- IFRS 3/IAS 27 - clarification of transition requirements, measurement of non-controlling interests, unreplaced and voluntarily replaced share-based payment awards
- Financial statement disclosures - clarification of content of statement of changes in equity (IAS 1), financial instrument disclosures (IFRS 7) and significant events and transactions in interim reports (IAS 34)
- IFRIC 13 - fair value of award credits.

### Amendments to IFRS 7 Financial Instruments: Disclosures

These make amendments to IFRS 7 Financial Instruments: Disclosures resulting from the IASB's comprehensive review of off balance sheet activities.

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

### Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)

Amends IAS 12 Income Taxes to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale.

As a result of the amendments, SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

### Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Amends the disclosure requirements in IFRS 7 *Financial Instruments:* Disclosure to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation.*

The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

### Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:
- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

### Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

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

### FUNCTIONAL AND PRESENTATION CURRENCY

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

### USE OF ESTIMATES

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

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

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

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

### CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

#### (i) New and amended standards adopted by the Bank

The following standards, amendments and interpretations which became effective in 2011 relevant to the Bank were adopted in the period:

**IFRS 9 Financial Instruments**

The Bank has adopted IFRS 9 Financial Instruments (IFRS 9) in 2011 in advance of its effective date. The Bank has chosen 1st January 2011 as its date of initial application (i.e. the date on which the Bank has assessed its existing financial assets) as this is the first reporting period end since the Standard was issued on 12th November 2009. The Standard has been applied prospectively in accordance with the transition rules for entities adopting the Standard before 1st January 2012, comparative financial information has hence not been restated. The key features of the Standard are:

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

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

## CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

- Equity instruments are to be measured at fair value. For equity investments, an irrevocable election can be made at initial recognition, to recognise unrealized and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by instrument basis. Despite the fair value requirement for all equity investments, IFRS 9 contains guidance on when cost may be the best estimate of fair value and also when it might not be representative of fair value.

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

- Investments in Government securities are classified and measured at amortized cost except if the Government securities are held for trading and are designated by the Bank as at fair value through profit and loss (FVTPL).

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

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

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

## FINANCIAL INSTRUMENTS

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss and financial assets held at amortised cost. Management determines the appropriate classification of its financial assets at initial recognition.

### Financial assets held at amortised cost

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

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

### Recognition and measurement

Purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. All other financial assets are subsequently carried at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are carried at fair value. All other financial assets are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in profit or loss in the period in which they arise. However, interest calculated using the effective interest method is recognised in the profit and loss. Dividends on equity instruments are recognised in profit or loss when the Bank's right to receive payment is established.

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

## DERIVATIVE FINANCIAL INSTRUMENTS

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

## IMPAIRMENT OF FINANCIAL ASSETS HELD AT AMORTISED COST

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

## FOREIGN CURRENCY TRANSLATION

### (i) Functional and presentation currency

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

### (ii) Transactions and balances

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

## PROPERTY AND EQUIPMENT

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

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

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

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

## PROPERTY AND EQUIPMENT (CONTINUED)

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

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

## LEASEHOLD LAND

Payments to acquire interests in leasehold land are treated as operating lease prepayments and amortised over the term of the related lease and if any, accumulated impairment losses.

## INTANGIBLE ASSETS

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

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

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

a) significant financial difficulty of the issuer or obligor;

b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the lender, for economic or legal reasons relating to the borrower's financial difficulty,

d) granting to the borrower a concession that the lender would not otherwise consider;

e) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

f) the disappearance of an active market for that financial asset because of financial difficulties; or

g) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
(i) adverse changes in the payment status of borrowers in the portfolio; and
(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 1 month and 3 months.

### Assets carried at amortised cost

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

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

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

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

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

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

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

## FINANCIAL LIABILITIES

After initial recognition, the Bank measures all financial liabilities including customer deposits other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

## BORROWINGS

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

## INTEREST INCOME AND EXPENSE

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

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

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

## FEES AND COMMISSIONS

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

## IMPAIRMENT

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

## LEASES

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

### With the Bank as lessee

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

### With the Bank as lessor

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

## CASH AND CASH EQUIVALENTS

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

## EMPLOYEE BENEFITS

### National Social Security Fund Contribution

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

### Defined contribution retirement benefit scheme

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

### Other entitlements

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

## OFFSETTING OF ASSETS AND LIABILITIES

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

## SALE AND REPURCHASE AGREEMENTS

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

## TAXATION

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

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

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

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

## SHARE CAPITAL

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

## REGULATORY RESERVE

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

## CUSTOMER DEPOSITS

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

## DIVIDENDS PAYABLE

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

## FIDUCIARY ACTIVITIES

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

## CONTINGENT LIABILITIES

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

## COMMITMENTS

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

## COMPARATIVES

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

### (a) Impairment losses on loans and advances

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

### (b) Fair value of derivatives

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

### (c) Held-to-maturity financial assets

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

## 5. FINANCIAL RISK MANAGEMENT

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

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

## a) Credit Risk

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

### (i) Credit risk measurement

#### Loans and advances (including commitments and guarantees)

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

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

#### Probability of default

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

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

| BANK'S INTERNAL RATINGS SCALE | |
|---|---|
| BANK'S RATING | DESCRIPTION OF THE GRADE |
| 1 | PERFORMING |
| 2 | WATCH |
| 3 | SUBSTANDARD |
| 4 | DOUBTFUL |
| 5 | LOSS |

#### Exposure at default

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

#### Loss given default

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

### (ii) 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, and industry sector are approved annually by the Board of Directors. The Board of Directors also approves individual borrower limits above specified amounts.

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

Some other specific control and mitigation measures are outlined below:

### Collateral

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

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

Longer-term finance and lending to corporate entities are generally secured.

### Credit related commitments

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

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

### (iii) Impairment and provisioning policies

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| BANK'S RATING | CREDIT EXPOSURE % | IMPAIRMENT ALLOWANCE % | CREDIT EXPOSURE % | IMPAIRMENT ALLOWANCE % |
| PERFORMING | 92.33 | 51.84 | 90.9 | 36.4 |
| WATCH | 5.73 | 3.24 | 6.6 | 2.7 |
| SUBSTANDARD | 1.83 | 9.52 | 1.1 | 18.9 |
| DOUBTFUL | 0.08 | 10.74 | 0.6 | 15.3 |
| LOSS | 0.03 | 24.67 | 0.8 | 26.7 |
| TOTAL | 100.00 | 100.00 | 100.0 | 100.0 |

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

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

**MAXIMUM EXPOSURES TO CREDIT RISK BEFORE COLLATERAL HELD:**

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| **ON-BALANCE SHEET ITEMS** | | |
| BALANCES WITH BANK OF UGANDA (CASH RATIO REQUIREMENT) | 23,079 | 15,263 |
| AMOUNTS DUE FROM OTHER BANKS | 42,995 | 17,696 |
| AMOUNTS DUE FROM GROUP COMPANIES | 8,941 | 3,341 |
| LOANS AND ADVANCES TO CUSTOMERS | 242,792 | 155,290 |
| INVESTMENT SECURITIES HELD FOR TRADING | - | 25,175 |
| INVESTMENT SECURITIES HELD-TO-MATURITY | 63,440 | 47,313 |
| **OFF-BALANCE SHEET ITEMS** | | |
| - ACCEPTANCES AND LETTERS OF CREDIT | 44,970 | 31,144 |
| - GUARANTEE AND PERFORMANCE BONDS | 43,827 | 29,584 |
| - COMMITMENTS TO LEND | 13,328 | 5,591 |
| **TOTAL** | **483,372** | **330,397** |
| **CREDIT EXPOSURE BY AGING** | | |
| SHORT TERM CREDITS (<1 YEAR) | 96,931 | 68,183 |
| MEDIUM TERM CREDITS (> 1 YEAR < 5 YEARS) | 115,005 | 79,654 |
| LONG TERM CREDITS (> 5 YEARS) | 33,410 | 9,836 |
| BILLS/CHEQUES/NOTES DISCOUNTED | 7 | 84 |
| **TOTAL ON BALANCE SHEET EXPOSURE** | **245,353** | **157,757** |
| ACCEPTANCES AND LETTERS OF CREDIT | 44,970 | 31,144 |
| GUARANTEE AND PERFORMANCE BONDS | 43,827 | 29,584 |
| **TOTAL NON-FUNDED EXPOSURE** | **88,797** | **60,728** |
| **TOTAL EXPOSURE** | **334,150** | **218,485** |

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 58% of the total maximum exposure is derived from loans and advances to banks and customers (2010: 61%). 22% represents investments in debt securities (2010: 20%).

Loans and advances to customers other than loans to salaried customers amounting to USHS 151,625 million (2009: USHS 108,979 million), are secured by collateral in the form of charges over land and buildings and/or plant and machinery or guarantees.

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

- 98% of the investments in debt securities are government securities.
- the Bank exercises stringent controls over the granting of new loans;
- 98% of the loans and advances portfolio are neither past due nor impaired;

## FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED:

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| NEITHER PAST DUE NOR IMPAIRED | 238,302 | 148,397 |
| PAST DUE BUT NOT IMPAIRED | 5,946 | 7,652 |
| INDIVIDUALLY IMPAIRED | 1,109 | 1,708 |
| GROSS | 245,357 | 157,757 |
| LESS: ALLOWANCE FOR IMPAIRMENT | (2,565) | (2,468) |
| **NET** | **242,792** | **155,269** |

No other financial assets are either past due or impaired.

## LOANS AND ADVANCES NEITHER PAST DUE NOR IMPAIRED:

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

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| STANDARD | 226,533 | 138,039 |
| WATCH | 11,769 | 10,358 |
| **TOTAL** | **238,302** | **148,367** |

## LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED:

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

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| PAST DUE UP TO 30 DAYS | 3,422 | 1,934 |
| PAST DUE 31 – 60 DAYS | 1,155 | 1,132 |
| PAST DUE 61 – 90 DAYS | 544 | 2,290 |
| PAST DUE OVER 90 DAYS | 825 | 2,296 |
| **TOTAL** | **5,946** | **7,652** |

### LOANS AND ADVANCES INDIVIDUALLY IMPAIRED:

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

| | LOANS | | OVERDRAFTS | |
|---|---|---|---|---|
| | 2011 USHS MILLIONS | 2010 USHS MILLIONS | 2011 USHS MILLIONS | 2010 USHS MILLIONS |
| **INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES** | | | | |
| CORPORATE | 30 | 32 | 2 | - |
| SME | 160 | 219 | 65 | 164 |
| CONSUMER | 717 | 738 | 135 | 555 |
| **TOTAL** | **907** | **989** | **202** | **719** |
| **FAIR VALUE OF COLLATERAL** | **10,081** | **8,032** | **10,081** | **8,032** |

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

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

| | LOANS AND ADVANCES % | CREDIT COMMITMENTS % | CUSTOMER DEPOSITS % |
|---|---|---|---|
| **AT 31 DECEMBER 2011** | | | |
| Agricultural | 4.9 | 1.3 | 2.3 |
| Manufacturing | 7.4 | 18.4 | 2.8 |
| Trade and Commerce | 37.6 | 21.2 | 13.9 |
| Financial Services | 1.7 | 0.9 | 12.3 |
| Transport and Utilities | 4.8 | 2.8 | 3.5 |
| Building and Construction | 15.1 | 25.6 | 11.9 |
| Individuals | 12.4 | 3.0 | 21.1 |
| Other | 16.1 | 26.9 | 32.3 |
| **TOTAL** | **100.0** | **100.0** | **100.0** |
| **AT 31 DECEMBER 2010** | | | |
| Agricultural | 3.0 | 1.6 | 3.3 |
| Manufacturing | 3.1 | 3.4 | 1.0 |
| Trade and Commerce | 31.9 | 12.1 | 8.9 |
| Financial Services | 2.0 | 1.4 | 16.3 |
| Transport and Utilities | 6.5 | 5.8 | 3.6 |
| Building and Construction | 7.4 | 30.8 | 7.4 |
| Individuals | 18.9 | 4.4 | 20.4 |
| Other | 27.2 | 40.4 | 39.1 |
| **TOTAL** | **100.0** | **100.0** | **100.0** |

## 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 that would otherwise be past due or impaired totalled Ushs 2,432 million (2009: Ushs 484 million).

## Repossessed collateral

During 2011, the Bank obtained assets by taking possession of collateral held as security as follows:

| NATURE | CARRYING AMOUNT |
|---|---|
| | USHS MILLIONS |
| RESIDENTIAL PROPERTY | - |

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within "other assets".

## b) Liquidity risk

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

The Bank is exposed to daily calls on its available cash resources from overnight deposits. current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank of Uganda requires that the Bank to maintain liquid assets amounting to not less than 20% of deposit liabilities in local and foreign currencies on a weekly average basis. As at 31 December 2011, the Bank's liquid asset amounted to 41% (2010: 22%) of the deposit liabilities.

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

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

## b) Liquidity risk (continued)

| | UP TO 1 MONTH | 1-3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS |
| **AT 31 DECEMBER 2011** | | | | | | |
| **FINANCIAL ASSETS** | | | | | | |
| CASH AND BANK BALANCES WITH BANK OF UGANDA | 47,552 | - | - | - | - | 47,552 |
| DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS | 42,995 | - | - | - | - | 42,995 |
| AMOUNTS DUE FROM GROUP COMPANIES | 8,941 | - | - | - | - | 8,941 |
| LOANS AND ADVANCES TO CUSTOMERS | 68,959 | 14,092 | 11,326 | 115,005 | 33,410 | 242,792 |
| GOVERNMENT SECURITIES | 544 | 7,544 | 33,409 | 21,943 | - | 63,440 |
| **TOTAL ASSETS (EXPECTED MATURITIES)** | **168,991** | **21,636** | **44,735** | **136,948** | **33,410** | **405,720** |
| **FINANCIAL LIABILITIES** | | | | | | |
| CUSTOMER DEPOSITS | 222,711 | 11,932 | 42,542 | 999 | - | 278,184 |
| DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS | 36,721 | - | 1,833 | - | - | 38,554 |
| AMOUNTS DUE TO GROUP COMPANIES | 12,619 | - | - | - | | 12,619 |
| OTHER BORROWED FUNDS | 112 | - | 2,106 | 46,844 | 2,595 | 51,657 |
| OTHER FINANCIAL LIABILITIES | 5,087 | - | - | - | - | 5,087 |
| **TOTAL** | **227,260** | **11,932** | **46,481** | **47,843** | **2,595** | **386,101** |
| **NET LIQUIDITY GAP** | **(108,259)** | **9,704** | **(1,746)** | **89,105** | **30,815** | **19,619** |
| **AT 31 DECEMBER 2010** | | | | | | |
| **FINANCIAL ASSETS** | | | | | | |
| CASH AND BANK BALANCES WITH BANK OF UGANDA | 28,298 | - | - | - | - | 28,298 |
| DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS | 17,696 | - | - | - | - | 17,696 |
| LOANS AND ADVANCES TO CUSTOMERS | 43,481 | 10,458 | 11,860 | 79,654 | 9,837 | 155,290 |
| GOVERNMENT SECURITIES | 25,376 | 5,717 | 26,436 | 14,959 | - | 72,488 |
| **TOTAL ASSETS (EXPECTED MATURITIES)** | **114,851** | **16,175** | **38,296** | **94,613** | **9,837** | **273,772** |
| **FINANCIAL LIABILITIES** | | | | | | |
| CUSTOMER DEPOSITS | 164,916 | 4,794 | 50,716 | 185 | - | 220,611 |
| DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS | 8,316 | 5,219 | - | - | - | 13,535 |
| OTHER BORROWED FUNDS | - | - | 84 | 4,013 | 14,455 | 18,552 |
| **TOTAL** | **173,232** | **10,013** | **50,800** | **4,198** | **14,455** | **252,698** |
| **NET LIQUIDITY GAP** | **(58,381)** | **6,162** | **(12,504)** | **90,415** | **(4,618)** | **21,074** |

## c) Market risk

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

### Market risk management

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

### (i) Currency risk

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

| AT 31 DECEMBER 2011 | USD | GBP | EUR | OTHER | TOTAL |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| CASH AND BALANCES WITH BANK OF UGANDA | 6,512 | 750 | 1,357 | 43 | 8,662 |
| DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS | 34,455 | 1,581 | 5,503 | 441 | 41,980 |
| AMOUNTS DUE FROM GROUP COMPANIES | 5,078 | 16 | 3,234 | 613 | 8,941 |
| LOANS AND ADVANCES | 80,108 | 8 | 492 | 13 | 80,621 |
| OTHER FINANCIAL ASSETS | 7,211 | 1,541 | 16 | - | 8,768 |
| **TOTAL FINANCIAL ASSETS** | **133,364** | **3,896** | **10,602** | **1,110** | **148,972** |
| **FINANCIAL LIABILITIES** | | | | | |
| CUSTOMER DEPOSITS | 76,585 | 518 | 9,979 | 413 | 87,495 |
| DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS | 17 | - | - | 1 | 18 |
| AMOUNTS DUE TO GROUP COMPANIES | 12,469 | - | - | 66 | 12,535 |
| OTHER FINANCIAL LIABILITIES | 45,051 | 70 | 407 | 11 | 45,539 |
| **TOTAL FINANCIAL LIABILITIES** | **134,122** | **588** | **10,386** | **491** | **145,587** |
| **NET ON-BALANCE SHEET POSITION** | **(758)** | **3,308** | **216** | **619** | **3,385** |
| NET OFF-BALANCE SHEET POSITION | 1,772 | 103 | (666) | 613 | 1,822 |
| **OVERALL OPEN POSITION** | **1,014** | **3,411** | **(450)** | **1,232** | **5,207** |

## c) Market risk (continued)

| AT 31 DECEMBER 2010 | USD | GBP | EUR | OTHER | TOTAL |
|---|---|---|---|---|---|
| TOTAL FINANCIAL ASSETS | 52,713 | 1,479 | 7,592 | 5,385 | 67,169 |
| TOTAL FINANCIAL LIABILITIES | 43,380 | 447 | 9,281 | 668 | 53,776 |
| NET ON-BALANCE SHEET POSITION | 9,333 | 1,032 | (1,689) | 4,717 | 13,393 |
| NET OFF-BALANCE SHEET POSITION | (316) | (93) | (587) | 300 | (696) |
| OVERALL OPEN POSITION | 9,017 | 939 | (2,276) | 5,017 | 12,697 |

### (ii) Interest rate risk

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

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

| | UP TO 1 MONTH | 1-3 MONTHS | 3-12 MONTHS | OVER 1 YEAR | NON INTEREST BEARING | TOTAL |
|---|---|---|---|---|---|---|
| **AT 31 DECEMBER 2011** | | | | | | |
| **FINANCIAL ASSETS** | | | | | | |
| CASH AND BANK BALANCES WITH BANK OF UGANDA | - | - | - | - | 47,552 | 47,552 |
| DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS | 1,002 | - | - | - | 41,993 | 42,995 |
| AMOUNTS DUE FROM GROUP COMPANIES | 8,941 | - | - | - | - | 8,941 |
| LOANS AND ADVANCES TO CUSTOMERS | 68,959 | 14,092 | 11,326 | 148,415 | - | 242,792 |
| GOVERNMENT SECURITIES | 544 | 7,544 | 33,409 | 21,943 | - | 63,440 |
| **TOTAL FINANCIAL ASSETS** | 79,446 | 21,636 | 44,735 | 170,358 | 89,545 | 405,720 |
| **FINANCIAL LIABILITIES** | | | | | | |
| CUSTOMER DEPOSITS | 136,191 | 11,932 | 42,542 | 999 | 86,521 | 278,155 |
| DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS | 36,721 | - | 1,833 | - | - | 38,554 |
| AMOUNTS DUE TO GROUP COMPANIES | - | - | 12,619 | - | - | 12,619 |
| OTHER BORROWED FUNDS | 112 | - | 2,106 | 49,438 | - | 51,656 |
| **TOTAL FINANCIAL LIABILITIES AND EQUITY** | 173,024 | 11,932 | 59,100 | 50,437 | 86,521 | 381,014 |
| **INTEREST SENSITIVITY GAP** | (93,578) | 9,704 | (14,365) | 119,921 | 3,024 | 24,706 |

## c) Market risk (continued)

| | UP TO 1 MONTH | 1-3 MONTHS | 3-12 MONTHS | OVER 1 YEAR | NON INTEREST BEARING | TOTAL |
|---|---|---|---|---|---|---|
| **31 DECEMBER 2010** | | | | | | |
| TOTAL FINANCIAL ASSETS | 86,554 | 16,175 | 38,296 | 104,449 | 28,298 | 273,772 |
| TOTAL FINANCIAL LIABILITIES | 107,234 | 10,013 | 50,800 | 18,653 | 65,998 | 252,698 |
| **INTEREST SENSITIVITY GAP** | **(20,680)** | **6,162** | **(12,504)** | **85,796** | **(37,700)** | **21,074** |

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.

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | IN USHS | IN FCY | IN USHS | IN FCY |
| **ASSETS** | | | | |
| AMOUNTS DUE FROM BANKS | 9% | 3% | 9% | 3% |
| LOANS AND ADVANCES TO CUSTOMERS | 20% | 10% | 19% | 9% |
| INVESTMENT SECURITIES | 11% | 0% | 8% | 0% |
| **LIABILITIES** | | | | |
| AMOUNTS DUE TO CUSTOMERS | 9% | 3% | 7% | 3% |
| AMOUNTS DUE TO BANKS | 28% | 3% | 9% | 1% |
| OTHER BORROWED FUNDS | 10% | 4% | 9% | 4% |

## d) Fair value of financial assets and liabilities

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

### Fair value hierarchy

IFRS7 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 or counterparty credit risk are Bloomberg and Reuters.

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

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

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

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| **31 DECEMBER 2010** | | | | |
| **ASSETS AND LIABILITIES MEASURED AT FAIR VALUE** | | | | |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 17) | | | | |
| GOVERNMENT SECURITIES | 25,175 | - | - | 25,175 |
| TRADING DERIVATIVES | - | - | - | - |
| **TOTAL** | **25,175** | **-** | **-** | **25,175** |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 17) | | | | |
| TRADING DERIVATIVES | 3 | - | - | 3 |

# 6. CAPITAL MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:
- to comply with the capital requirements set by the Bank of Uganda;
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

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

The Bank of Uganda requires each bank to: (a) hold the minimum level of capital funds unimpaired by losses of Shs 10 billion; (2010: Shs 4 billion) (b) maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; and (c) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off balance sheet items.

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

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

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

## CAPITAL RATIOS PER FINANCIAL INSTITUTIONS ACT (FIA) 2004

| | CAPITAL AMOUNT | | BANK RATIO | | FIA 2004 MINIMUM RATIO | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | USHS MILLIONS | USHS MILLIONS | % | % | % | % |
| PERMANENT SHAREHOLDERS' EQUITY | 20,919 | 8,666 | | | | |
| SHARE PREMIUM | 6,086 | 9,420 | | | | |
| PRIOR YEAR RETAINED EARNINGS | 9,852 | 8,932 | | | | |
| NET AFTER-TAX PROFITS FOR THE YEAR | 6,246 | 3,651 | | | | |
| LESS: UNREALIZED FOREIGN EXCHANGE GAINS | (197) | (918) | | | | |
| LESS: INTANGIBLE ASSETS | (1,015) | (1,350) | | | | |
| **CORE CAPITAL (TIER 1)** | **41,891** | **28,401** | **12.9** | **13.7** | **8.0** | **8.0** |
| UNENCUMBERED GENERAL PROVISIONS | 2,465 | 1,559 | | | | |
| SUBORDINATED TERM DEBT | 7,556 | 7,007 | | | | |
| SUPPLEMENTARY CAPITAL (TIER 2) | 10,021 | 8,566 | | | | |
| **TOTAL CAPITAL (TIER 1 + TIER 2)** | **51,912** | **36,967** | **16.0** | **17.8** | **12.0** | **12.0** |

## 6. CAPITAL MANAGEMENT (CONTINUED)

### BALANCE SHEET ASSETS (NET OF PROVISIONS)

| | BALANCE SHEET AMOUNT | | RISK WEIGHTED AMOUNT | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS |
| CASH AND BALANCES WITH BANK OF UGANDA | 47,552 | 28,298 | - | - |
| AMOUNTS DUE FROM OTHER BANKS: | | | | |
| RATED AAA TO AA(-) | 32,321 | 11,270 | 6,464 | 2,254 |
| RATED A(+) TO A(-) | 9,689 | 6,074 | 4,844 | 3,037 |
| RATED A(-) AND NON RATED | 985 | 352 | 985 | 352 |
| AMOUNTS DUE FROM GROUP COMPANIES | 8,941 | 3,341 | 8,941 | 3,341 |
| LOANS AND ADVANCES TO CUSTOMERS | 242,792 | 155,290 | 242,792 | 155,290 |
| DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS | 195 | - | - | - |
| INVESTMENT SECURITIES AT FV THROUGH P&L | - | 25,670 | - | - |
| INVESTMENT SECURITIES HELD TO MATURITY | 63,440 | 46,818 | - | - |
| PROPERTY AND EQUIPMENT | 16,814 | 14,280 | 16,814 | 14,280 |
| INTANGIBLE ASSETS (OFFSET AGAINST CORE CAPITAL) | 1,015 | 1,350 | 1,015 | 1,350 |
| TAX RECOVERABLE | 683 | 617 | - | - |
| OTHER ASSETS | 7,242 | 4,604 | 7,242 | 4,604 |
| **ON BALANCE SHEET ASSETS** | **431,669** | **297,964** | **289,097** | **184,508** |
| | | | | |
| **OFF-BALANCE SHEET POSITIONS** | | | | |
| CONTINGENTS SECURED BY CASH COLLATERAL | 2,651 | 1,774 | - | - |
| PERFORMANCE BONDS | 41,361 | 27,810 | 20,588 | 13,905 |
| LETTERS OF CREDIT AND ACCEPTANCES | 44,970 | 31,144 | 8,994 | 6,229 |
| COMMITMENTS TO LEND | 13,328 | 5,591 | 6,664 | 2,796 |
| **OFF BALANCE SHEET ITEMS** | **102,310** | **66,319** | **36,246** | **22,930** |
| | | | | |
| **TOTAL RISK-WEIGHTED ASSETS** | **533,979** | **364,283** | **325,343** | **207,438** |

## 7. INTEREST INCOME

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| LOANS AND ADVANCES | 33,158 | 22,424 |
| GOVERNMENT SECURITIES | 6,251 | 5,353 |
| SHORT TERM PLACEMENTS | 589 | 204 |
| **TOTAL** | **39,998** | **27,981** |

| | | |
|---|---|---|
| **ANALYSED BY ASSET CLASSIFICATION:** | | |
| HELD TO MATURITY INVESTMENTS | 6,251 | 5,353 |
| LOANS AND RECEIVABLES | 33,747 | 22,628 |
| **TOTAL** | **39,998** | **27,981** |

## 8. INTEREST EXPENSE

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| CUSTOMER DEPOSITS | 11,155 | 8,595 |
| DEPOSITS BY BANKS | 3,796 | 776 |
| BORROWED FUNDS | 1,970 | 1,397 |
| OTHER | 1,572 | 294 |
| **TOTAL** | **18,493** | **11,062** |

## 9. FEE AND COMMISSION INCOME

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| COMMISSION INCOME | 173 | 113 |
| FEES AND COMMISSION - BRANCH OPERATIONS | 6,770 | 4,645 |
| FEES AND COMMISSION - CREDIT OPERATIONS | 2,068 | 1,433 |
| FEES AND COMMISSION - TRADE FINANCE OPERATIONS | 2,415 | 1,847 |
| **TOTAL** | **11,426** | **8,038** |

## 10. FEE AND COMMISSION EXPENSE

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| CREDIT FEES PAID | 8 | 294 |
| FEES AND COMMISSION - BANKS | 400 | 196 |
| FEES AND COMMISSION - BROKERAGE | 751 | 678 |
| **TOTAL** | **1,159** | **1,168** |

## 11. NET FOREIGN EXCHANGE GAINS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| REALISED FOREIGN EXCHANGE GAINS | 3,237 | 788 |
| UNREALISED FOREIGN EXCHANGE GAINS | 197 | 918 |
| **TOTAL** | **3,434** | **1,706** |

## 12. STAFF COSTS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| SALARIES AND WAGES | 10,201 | 7,568 |
| NSSF CONTRIBUTIONS | 823 | 649 |
| DEFINED CONTRIBUTION SCHEME CONTRIBUTIONS | 215 | 118 |
| OTHER STAFF COSTS | 1,367 | 1,171 |
| **TOTAL** | **12,606** | **9,506** |

## 13. OPERATING EXPENSES

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| STAFF COSTS (NOTE 12) | 12,606 | 9,506 |
| DEPRECIATION | 2,452 | 2,098 |
| AMORTISATION OF INTANGIBLE ASSET | 544 | 450 |
| AMORTISATION OF OPERATING LEASE PREPAYMENTS | 25 | 25 |
| AUDITORS' REMUNERATION | 86 | 92 |
| DIRECTORS' EXPENSES | 194 | 164 |
| OCCUPANCY COSTS | 2,406 | 2,001 |
| COMMUNICATION EXPENSES | 1,356 | 967 |
| REPAIRS AND MAINTENANCE | 1,499 | 1,165 |
| MANAGEMENT SERVICE COSTS | 1,656 | 937 |
| MARKETING COSTS | 1,205 | 680 |
| DONATIONS AND SUBSCRIPTIONS | 111 | 165 |
| SECURITY | 971 | 652 |
| OTHER ADMINISTRATIVE EXPENSES | 419 | 310 |
| DEPOSIT PROTECTION FUND CONTRIBUTION | 387 | 239 |
| TRAVELLING EXPENSES | 634 | 374 |
| PRINTING AND STATIONERY | 615 | 516 |
| INSURANCE COSTS | 279 | 215 |
| LEGAL AND PROFESSIONAL FEES | 35 | 126 |
| WRITE OFFS | 584 | 566 |
| LOSS ON SALE OF PROPERTY | 1 | 1 |
| **TOTAL** | **28,065** | **21,249** |

## 14. TAXATION

| | 2011<br>USHS MILLIONS | 2010<br>USHS MILLIONS |
|---|---|---|

### (a) Taxation charge/(credit)

| | 2011 | 2010 |
|---|---|---|
| CURRENT TAXATION - CURRENT YEAR | 938 | 802 |
| DEFERRED TAXATION CREDIT - CURRENT YEAR | (391) | (997) |
| **TOTAL** | **547** | **(195)** |

### (b) Reconciliation of taxation charge/(credit)

| | 2011 | 2010 |
|---|---|---|
| ACCOUNTING PROFIT BEFORE TAXATION | 6,793 | 3,456 |
| TAX AT APPLICABLE RATE OF 30% | 2,038 | 1,037 |
| INCOME NOT SUBJECT TO TAX | (2,247) | (1,810) |
| TAX EFFECT OF NON-DEDUCTIBLE ITEMS | (126) | 317 |
| FINAL TAX ON INVESTMENTS | 938 | 803 |
| PRIOR YEAR DEFERRED TAX OVER PROVISION | (56) | (542) |
| **TAXATION CHARGE/(CREDIT)** | **547** | **(195)** |

### (c) Tax recoverable

| | 2011 | 2010 |
|---|---|---|
| **AS AT 1 JANUARY** | **617** | **491** |
| CURRENT TAX CHARGE | (938) | (802) |
| TAX PAID | 1,004 | 928 |
| **BALANCE AS AT 31 DECEMBER** | **683** | **617** |

## 15. CASH AND BALANCES WITH BANK OF UGANDA (BOU)

| | 2011<br>USHS MILLIONS | 2010<br>USHS MILLIONS |
|---|---|---|
| CASH ON HAND | 24,473 | 13,035 |
| BALANCES WITH BOU (CASH RESERVE REQUIREMENT) | 23,079 | 15,263 |
| **TOTAL** | **47,552** | **28,298** |

## 16. DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| BALANCES DUE FROM OTHER BANKING INSTITUTIONS -OUTSIDE UGANDA | 41,993 | 16,695 |
| DEPOSITS WITH OTHER BANKING INSTITUTIONS -INSIDE UGANDA | 1,002 | 1,001 |
| **TOTAL** | **42,995** | **17,696** |

The deposits with other banking institutions are interest bearing.

## 17. GOVERNMENT SECURITIES AND DERIVATIVES

### (a) Held to maturity investments

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| **AT AMORTISED COST** | | |
| **TREASURY BILLS** | | |
| FACE VALUE | | |
| MATURING WITHIN 90 DAYS | 14,608 | 496 |
| MATURING AFTER 90 DAYS | 2,091 | 16,700 |
| **TOTAL** | **16,699** | **17,196** |
| UNEARNED INTEREST | (598) | (1,058) |
| **TOTAL** | **16,101** | **16,138** |
| **TREASURY BONDS** | | |
| MATURING AFTER 90 DAYS | 53,042 | 34,108 |
| **TOTAL** | **53,042** | **34,108** |
| UNEARNED INTEREST | (5,804) | (3,133) |
| **TOTAL** | **47,238** | **30,975** |
| **LISTED DEBT SECURITIES** | | |
| MATURING AFTER 90 DAYS | 101 | 200 |
| **TOTAL** | **63,440** | **47,313** |

## 17. GOVERNMENT SECURITIES AND DERIVATIVES (CONTINUED)

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |

### (b) Held for trading investments

| AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT | | |
|---|---|---|
| GOVERNMENT SECURITIES | | |
| MATURING AFTER 90 DAYS | - | 25,175 |
| TOTAL | | 25,175 |

### (c) Total Government securities

| | | |
|---|---|---|
| INVESTMENT SECURITIES - HELD TO MATURITY | 63,440 | 47,313 |
| INVESTMENT SECURITIES - HELD FOR TRADING | - | 25,175 |
| TOTAL | 63,440 | 72,488 |

### (d) Derivatives at fair value through profit or loss

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

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

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

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

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| CURRENCY SWAPS | 195 | (3) |

## 18. LOANS AND ADVANCES TO CUSTOMERS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |

### a) Analysis of loan advances to customers by category:

| | | |
|---|---|---|
| **TERM LOANS** | | |
| - STAFF | 2,362 | 2,049 |
| - OTHER | 189,480 | 125,812 |
| OVERDRAFTS | 53,508 | 29,813 |
| DISCOUNTED BILLS | 7 | 84 |
| **GROSS LOANS AND ADVANCES** | **245,357** | **157,758** |
| PROVISIONS FOR IMPAIRMENT OF LOANS AND ADVANCES | | |
| SPECIFIC ALLOWANCE (NOTE 19) | (2,565) | (2,468) |
| **NET LOANS AND ADVANCES** | **242,792** | **155,200** |

Included in net advances are loans and advances amounting to USHS 5,462 million (2010 – USHS 4,004 million) net of specific provisions, which have been classified as non-performing.

### b) Credit Concentration above 25% of Total Capital

As at 31 December 2011, the Bank had no borrowers with advances or credit facilities exceeding 25% of its total capital.

### c) The maturity analysis of advances to customers is as follows:

| | | |
|---|---|---|
| WITHIN THREE MONTHS | 83,051 | 53,939 |
| BETWEEN THREE AND SIX MONTHS | 11,326 | 3,386 |
| OVER SIX MONTHS | 150,980 | 100,433 |
| **GROSS ADVANCES TO CUSTOMERS** | **245,357** | **157,758** |

### d) Gross advances to customers by industry composition:

| | | |
|---|---|---|
| TRADE AND COMMERCE | 92,238 | 50,336 |
| AGRICULTURE | 12,013 | 4,709 |
| MANUFACTURING | 18,073 | 4,932 |
| TRANSPORT & COMMUNICATION | 11,832 | 10,283 |
| BUILDING AND CONSTRUCTION | 36,983 | 11,640 |
| PERSONAL, SERVICE INDUSTRY AND OTHERS | 74,218 | 75,858 |
| **TOTAL** | **245,357** | **157,758** |

## 19. PROVISION FOR IMPAIRED LOANS AND ADVANCES

### (a) Movement in provisions

| | INDIVIDUALLY ASSESSED | COLLECTIVELY ASSESSED | TOTAL |
|---|---|---|---|
| | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS |
| **2010** | | | |
| AT 1 JANUARY | 798 | 696 | 1,494 |
| PROVISION FOR LOAN IMPAIRMENT | 5,216 | 281 | 5,497 |
| AMOUNTS RECOVERED DURING THE YEAR | (4,087) | - | (4,087) |
| LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE | (436) | - | (436) |
| **AT 31 DECEMBER 2010** | **1,491** | **977** | **2,468** |
| **2011** | | | |
| AT 1 JANUARY | 1,491 | 977 | 2,468 |
| PROVISION FOR LOAN IMPAIRMENT | 3,634 | - | 3,634 |
| AMOUNTS RECOVERED DURING THE YEAR | (2,191) | - | (2,191) |
| TRANSFERS | (455) | 455 | - |
| LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE | (1,346) | - | (1,346) |
| **AT 31 DECEMBER 2011** | **1,133** | **1,432** | **2,565** |

### (b) Impairment losses charged to profit or loss

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| PROVISION FOR LOAN IMPAIRMENT (NOTE19 (A)) | 3,634 | 5,497 |
| AMOUNTS RECOVERED DURING THE YEAR (NOTE 19 (A)) | (2,191) | ( 4,087) |
| **TOTAL** | **1,443** | **1,410** |

### (c) Statutory reserve

Analysis as per Bank of Uganda guidelines

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| **SPECIFIC PROVISIONS** | | |
| SPECIFIC PROVISION AS PER BOU GUIDELINES | 1,604 | 2,092 |
| BALANCE AS PER IAS 39 (NOTE 19(A)) | (2,565) | (2,468) |
| **AT 31 DECEMBER** | **(961)** | **(376)** |
| AT 1 JANUARY | - | - |
| TRANSFER OF EXCESS TO/(FROM) STATUTORY RESERVES | - | - |
| **AT 31 DECEMBER** | - | - |
| **GENERAL PROVISION** | | |
| AT 1 JANUARY | (1,559) | (1,400) |
| TRANSFER TO THE REGULATORY RESERVE | (906) | (159) |
| **AT 31 DECEMBER** | **(2,465)** | **(1,559)** |
| **TOTAL BALANCE OF STATUTORY RESERVE AS AT 31 DECEMBER** | **(2,465)** | **(1,559)** |

## 20. OTHER ASSETS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| ACCOUNTS RECEIVABLE AND PREPAYMENTS | 2,958 | 1,903 |
| ITEMS IN TRANSIT | 1,115 | 333 |
| STATIONERY STOCKS | 240 | 207 |
| OTHER | 649 | 247 |
| **TOTAL** | **4,962** | **2,690** |

## 21. PROPERTY AND EQUIPMENT

| | BUILDINGS | MOTOR VEHICLES | FIXTURES, FITTINGS & EQUIPMENT | WORK IN PROGRESS | TOTAL |
|---|---|---|---|---|---|
| | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS | USHS MILLIONS |
| **COST** | | | | | |
| **AT 1 JANUARY 2010** | 3,470 | 386 | 10,601 | 623 | 15,080 |
| ADDITIONS | - | 1 | 3,844 | 1,321 | 5,166 |
| DISPOSALS | - | (28) | (12) | - | (40) |
| TRANSFER FROM WIP | - | - | 388 | (623) | (235) |
| WRITE-OFFS | - | - | (11) | - | (11) |
| **AT 31 DECEMBER 2010** | **3,470** | **359** | **14,810** | **1,321** | **19,960** |
| **AT 1 JANUARY 2011** | 3,470 | 359 | 14,810 | 1,321 | 19,960 |
| ADDITIONS | - | 119 | 2,929 | 2,153 | 5,201 |
| DISPOSALS | - | (88) | (17) | - | (105) |
| TRANSFERS FROM WIP | - | 227 | 928 | (1,321) | (166) |
| **AT 31 DECEMBER 2011** | **3,470** | **617** | **18,650** | **2,153** | **24,890** |
| **DEPRECIATION** | | | | | |
| **AT 1 JANUARY 2010** | 246 | 100 | 3,274 | - | 3,620 |
| CHARGE FOR THE YEAR | 73 | 96 | 1,929 | - | 2,098 |
| ELIMINATED ON DISPOSAL | - | (22) | (6) | - | (28) |
| DEPRECIATION ON WRITE-OFFS | - | - | (10) | - | (10) |
| **AT 31 DECEMBER 2010** | **319** | **174** | **5,187** | **-** | **5,680** |
| **AT 1 JANUARY 2011** | 319 | 174 | 5,187 | - | 5,680 |
| CHARGE FOR THE PERIOD | 73 | 149 | 2,230 | - | 2,452 |
| ELIMINATED ON DISPOSAL | - | (48) | (8) | - | (56) |
| **AT 31 DECEMBER 2011** | 392 | 275 | 7,409 | - | 8,076 |
| **NET BOOK VALUE** | | | | | |
| **AT 31 DECEMBER 2011** | **3,078** | **342** | **11,241** | **2,153** | **16,814** |
| **AT 31 DECEMBER 2010** | **3,151** | **185** | **9,623** | **1,321** | **14,280** |

## 22. OPERATING LEASE PREPAYMENTS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| COST | | |
| AT 1 JANUARY & 31 DECEMBER | 1,242 | 1,242 |
| AMORTISATION | | |
| AT 1 JANUARY | 142 | 117 |
| CHARGE FOR THE YEAR | 25 | 25 |
| AT 31 DECEMBER | 167 | 142 |
| NET BOOK VALUE | | |
| AT 31 DECEMBER | 1,075 | 1,100 |

## 23. INTANGIBLE ASSET

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| COST | | |
| AT 1 JANUARY | 2,690 | 1,911 |
| ADDITIONS: COMPUTER SOFTWARE | 43 | 544 |
| TRANSFERS FROM WORK IN PROGRESS (NOTE 21) | 166 | 235 |
| AT 31 DECEMBER | 2,899 | 2,690 |
| AMORTISATION | | |
| AT 1 JANUARY | 1,340 | 890 |
| CHARGE FOR THE YEAR | 544 | 450 |
| AT 31 DECEMBER | 1,884 | 1,340 |
| NET BOOK VALUE | | |
| AT 31 DECEMBER | 1,015 | 1,350 |

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

## 24. CUSTOMER DEPOSITS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |

### (a) Customer deposits

| | | |
|---|---|---|
| CURRENT AND DEMAND DEPOSITS | 112,174 | 79,892 |
| SAVINGS ACCOUNTS | 70,936 | 49,219 |
| FIXED DEPOSIT ACCOUNTS | 93,205 | 89,709 |
| MARGIN DEPOSITS | 1,869 | 1,791 |
| **TOTAL** | **278,184** | **220,611** |

### (b) Sectoral analysis - customer deposits

| | | |
|---|---|---|
| BANKS AND FINANCIAL INSTITUTIONS | 34,330 | 36,035 |
| PRIVATE ENTERPRISES AND INDIVIDUALS | 58,628 | 44,982 |
| GOVERNMENT AND PARASTATALS | 10,713 | 6,169 |
| AGRICULTURE | 6,414 | 7,331 |
| BUILDING AND CONSTRUCTION | 33,087 | 16,262 |
| MANUFACTURING | 7,732 | 2,218 |
| TRADE AND COMMERCE | 38,592 | 19,533 |
| TRANSPORT AND UTILITIES | 9,692 | 7,942 |
| OTHER SERVICES | 78,996 | 80,139 |
| **TOTAL** | **278,184** | **220,611** |

## 25. DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| ITEMS IN COURSE OF COLLECTION | 19 | 678 |
| TERM DEPOSITS | 38,538 | 12,857 |
| **TOTAL** | **38,554** | **13,535** |

The deposits with other banking institutions are interest bearing.

## 26. OTHER BORROWINGS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| EIB - UGANDA APEX PRIVATE SECTOR LOAN SCHEME | 112 | 287 |
| EIB - PRIVATE ENTERPRISE FINANCE FACILITY | 1,261 | 6,591 |
| FMO - TERM FACILITY | 26,942 | 3,463 |
| PROPARCO – SUBORDINATED LOAN | 7,556 | 7,007 |
| BOU AGRICULTURAL CREDIT FACILITY | 3,372 | 1,204 |
| IFC TERM FACILITY | 12,414 | - |
| **TOTAL** | **51,657** | **18,552** |

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

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

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

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

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

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

## 27. OTHER LIABILITIES

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| BILLS PAYABLE | 549 | 820 |
| CREDITORS | 1,298 | 1,020 |
| ACCRUALS | 3,215 | 1,668 |
| OTHER | 25 | 8 |
| **TOTAL** | **5,087** | **3,516** |

## 28. DEFERRED TAX ASSET

Deferred income taxes are calculated on all temporary differences under the liability method using the Applicable tax rate of 30%.

The net deferred tax asset comprises:

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| ACCELERATED CAPITAL ALLOWANCES | (1,568) | (1,170) |
| TAX LOSSES BROUGHT FORWARD | 2,144 | 1,947 |
| PROVISIONS FOR LOAN IMPAIRMENT | 309 | 113 |
| OTHER PROVISIONS | 261 | 200 |
| UNREALISED TRANSLATION DIFFERENCES | 59 | (276) |
| **NET DEFERRED TAX ASSET** | **1,205** | **814** |
| **AT 1 JANUARY** | 814 | (183) |
| INCOME STATEMENT CREDIT - CURRENT YEAR (NOTE 13) | 391 | 997 |
| **AT 31 DECEMBER** | **1,205** | **814** |

## 29. SHARE CAPITAL

| | NUMBER OF SHARES ISSUED & FULLY PAID (THOUSANDS) | ORDINARY SHARES USHS MILLIONS | SHARE PREMIUM USHS MILLIONS |
|---|---|---|---|
| **2010** | | | |
| **BALANCE AT 1 JANUARY** | 7,508 | 7,508 | 6,538 |
| BONUS ISSUE OF SHARES | 1,158 | 1,158 | 2,882 |
| RIGHTS ISSUES OF SHARES | | | |
| **BALANCE AT 31 DECEMBER** | **8,666** | **8,666** | **9,420** |
| **2011** | | | |
| **BALANCE AT 1 JANUARY** | 8,666 | 8,666 | 9,420 |
| BONUS ISSUE OF SHARES | 3,334 | 3,334 | (3,334) |
| RIGHTS ISSUE OF SHARES | 8,919 | 8,919 | - |
| **BALANCE AT 31 DECEMBER** | **20,919** | **20,919** | **6,086** |

The total authorised number of ordinary shares is 25 million (2010: 10 million) with a par value of Shs 1,000 per share.

In February 2011 the Board approved a bonus issue of 3,333,856 shares (2010: Nil) at par value. The bonus issue was financed by the share premium.

In December 2011 the Board approved a rights issue of 12,303,650 shares at par value which were payable by 31 January 2012. By year end 8,918,916 shares were fully paid up (2010: 1,157,925 shares) and 3,384,734 shares were not paid.

## 30. BANK SHAREHOLDING

The Bank shareholders are comprised of the following:

| | HOLDING | COUNTRY OF INCORPORATION |
|---|---|---|
| BANK OF AFRICA – KENYA | 50.01% | KENYA |
| AUREOS EAST AFRICA FUND LLC | 21.88% | MAURITIUS |
| NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO) | 17.51% | THE NETHERLANDS |
| CENTRAL HOLDINGS UGANDA LTD. | 9.39% | UGANDA |
| AFRICAN FINANCIAL HOLDING (AFH) - OCEAN INDIEN | 1.21% | MAURITIUS |
| **TOTAL** | **100.00%** | |

## 31. DIVIDENDS

The proposed dividend for the year is Shs 260 per share amounting to Shs 3,123 million (2010: dividend per share of Shs 211 amounting to Shs 1,825 million). During the period, final dividends of Shs 1,825 million were paid in respect of the year ended 31 December 2010. No interim dividends were paid in respect of the year ended 31 December 2011. The payment of dividends is subject to withholding tax at 15% or the rate specified under an applicable double tax agreement.

## 32. ANALYSIS OF CASH AND CASH EQUIVALENTS

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| CASH AND BALANCES WITH BANK OF UGANDA (NOTE 15) | 47,552 | 28,298 |
| LESS: CASH RESERVE REQUIREMENT (SEE BELOW) | (22,255) | (23.148) |
| GOVERNMENT SECURITIES -MATURING WITHIN 90 DAYS | 14,608 | 496 |
| PLACEMENTS WITH OTHER BANKS (NOTE 16) | 42,995 | 17,696 |
| AMOUNTS DUE FROM GROUP COMPANIES (NOTE 34) | 8,941 | 3,341 |
| **TOTAL** | **91,841** | **26,683** |

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

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

## 33. EARNINGS PER SHARE

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (USHS MILLIONS) | 6,246 | 3,651 |
| WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES IN ISSUE (THOUSANDS) | 12,000 | 11,405 |
| **BASIC EARNINGS PER SHARE (EXPRESSED IN USHS PER SHARE)** | **521** | **320** |

There were no potentially dilutive shares outstanding at 31 December, 2012 (2010: Nil).

## 34. RELATED PARTY BALANCES

| | 2011 USHS MILLIONS | 2010 USHS MILLIONS |
|---|---|---|

### a) Amounts due from Group companies

| | 2011 | 2010 |
|---|---|---|
| BANK OF AFRICA – RDC | 5,010 | - |
| BANK OF AFRICA – KENYA | 3,764 | 952 |
| BANK OF AFRICA – TANZANIA | 90 | 18 |
| BMCE BANK INTERNATIONAL | 77 | 2,371 |
| TOTAL | 8,941 | 3,341 |

### b) Amounts due to Group companies

| | 2011 | 2010 |
|---|---|---|
| BANK OF AFRICA – MER ROUGE | 12,458 | - |
| BANK OF AFRICA – KENYA | 80 | 6,528 |
| BANK OF AFRICA – TANZANIA | 66 | 2,761 |
| BANK OF AFRICA – RDC | 11 | - |
| BMCE BANK INTERNATIONAL | 4 | - |
| OTHER RELATED PARTIES | - | 230 |
| TOTAL | 12,619 | 9,519 |

### c) Related party balances

| | 2011 | 2010 |
|---|---|---|
| DEPOSITS FROM DIRECTORS AND SHAREHOLDERS | 4 | 16 |
| LOANS TO DIRECTORS | 27,769 | - |
| ADVANCES TO STAFF | 2,902 | 2,486 |
| TOTAL | 30,675 | 2,502 |

## 34. RELATED PARTY BALANCES (CONTINUED)

### d) Related party transactions

| | 2011<br>USHS MILLIONS | 2010<br>USHS MILLIONS |
|---|---|---|
| **INTEREST:** | | |
| INTEREST PAID TO RELATED PARTIES/DIRECTORS | 58 | 129 |
| INTEREST EARNED FROM RELATED PARTIES | 51 | 17 |
| **DIRECTORS' REMUNERATION** | | |
| DIRECTORS' FEES | 195 | 164 |
| OTHER EMOLUMENTS | 1,210 | 383 |
| **TOTAL** | **1,405** | **547** |
| **KEY MANAGEMENT COMPENSATION** | | |
| SALARIES AND SHORT-TERM BENEFITS | 1,754 | 884 |
| TERMINAL BENEFITS | 44 | 63 |
| **TOTAL** | **1,798** | **947** |
| **EXPENSES** | | |
| AFH TECHNICAL SERVICES | 1,656 | 937 |

## 35. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

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

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

The following are the commitments outstanding at period-end:

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| ACCEPTANCES AND LETTERS OF CREDIT | 44,970 | 31,144 |
| GUARANTEE AND PERFORMANCE BONDS | 43,827 | 29,584 |
| **TOTAL** | **88,797** | **60,728** |

**Non-trade contingent liabilities**

There were 16 outstanding legal proceedings against the Bank as at 31 December 2011 (2010: 8). In the opinion of the Directors, after taking legal advice from the company lawyers, the estimated liability to the Bank from these proceedings is USHS 240 million.

**Other commitments**

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

| | 2011 | 2010 |
|---|---|---|
| | USHS MILLIONS | USHS MILLIONS |
| AT 31 DECEMBER, THESE INCLUDED: | | |
| **APPROVED LOANS NOT DISBURSED** | **13,328** | **5,591** |

# BANK OF AFRICA – UGANDA www.boa-uganda.com

## HEAD OFFICE

### BANK OF AFRICA – UGANDA

BANK OF AFRICA House – Plot 45, Jinja Road – P.O. Box 2750 – Kampala – UGANDA
Phone: (256) 0414 302001 – Fax: (256) 0414 230669
Swift: AFRIUGKA – E-mail <boa@boa-uganda.com>

## KAMPALA BRANCHES

### MAIN BRANCH
Plot 45, Jinja Road
P.O. Box 2750 – Kampala
Phone: (256) 0414 302001 – Fax: (256) 0414 230669

### BBIRA BRANCH
Plot 2371, Bbira – P.O. Box 2750 – Kampala
Phone: (256) 0414 302781

### EQUATORIA BRANCH
Plot 84/86, Ben Kiwanuka Street
P.O. Box 2750 – Kampala
Phone: (256) 0414 255842 – Fax: (256) 0414 344064

### KABALAGALA BRANCH
Plot 559, Kabalagala
P.O. Box 2750 – Kampala
Phone: (256) 0414 501212 – Fax: (256) 0414 501211

### KAMPALA ROAD BRANCH
Plot 48, Kampala Road – P.O. Box 2750 – Kampala
Phone: (256) 0414 302149 – Fax: (256) 0414 259915

### KAWEMPE BRANCH
Plot 125, Bombo Road – P.O. Box 2750 – Kampala
Phone: (256) 414 302001 – Fax: (256) 414 230669

### KOLOLO BRANCH
Plot 9, Cooper Road (Kisementi) – P.O. Box 2750 – Kampala
Phone: (256) 0414 255417– Fax: (256) 0414 255417

### LUZIRA BRANCH
Plot 1329/1330, Portbell – P.O. Box 2750 – Kampala
Phone: (256) 0414 220380 – Fax: (256) 0414 220380

### MUKONO BRANCH
Plot 13, Kampala Road – P.O. Box 430 – Kampala
Phone: (256) 414 291092
Fax: (256) 414 291092

### NAKIVUBO BRANCH
Plot 15, Nakivubo Road – P.O. Box 2750 – Kampala
Phone: (256) 414 252050 – Fax: (256) 414 230669

### NALUKOLONGO MINI-BRANCH
Plot 4, Wankulukuku – P.O. Box 2750 – Kampala
Phone: (256) 0414 274923 – Fax: (256) 0414 274923

### NAMASUBA BRANCH
Plot 4010, Namasuba, Entebbe Road
P.O. Box 2750 – Kampala
Phone: (256) 0414 501449 – Fax: (256) 0414 501449

### NANSANA BRANCH
Plot 5390, Nansana Town Council
P.O. Box 2750 – Kampala
Phone: (256) 0414 302704

### NATEETE BRANCH
Plot 1-2, Old Masaka Road – P.O. Box 2750 – Kampala
Phone: (256) 0414 271424 – Fax: (256) 0414 271424

### NDEEBA BRANCH
Plot 1024, Masaka Road
P.O. Box 2750 – Kampala
Phone: (256) 0414 270810 – Fax: (256) 0414 270810

### NTINDA BRANCH
Plot 49, Ntinda Road
P.O. Box 2750 – Kampala
Phone: (256) 0414 288779 – Fax: (256) 0414 288782

### OASIS BRANCH
Plot 88, 94 Yusuf Lule Road
P.O. Box 2750 – Kampala
Phone: (256) 0417 130114 – Fax: (256) 0417 130113

### PARK BRANCH
Mukwano Centre – Plot 40/46, Ben Kiwanuka Street
P.O. Box 2750 – Kampala
Phone: (256) 0414 507145 – Fax: (256) 0414 264351

### WANDEGEYA BRANCH
KM Plaza – Plot 85, Bombo Road
P.O. Box 2750 – Kampala
Phone: (256) 0414 530057 – Fax: (256) 0414 530486

## REGIONAL BRANCHES

### ARUA BRANCH
Plot 19, Avenue Road – P.O. Box 894 – Arua
Phone: (256) 0476 420482
Fax: (256) 0476 420476

### ENTEBBE BRANCH
Plot 16, Kampala Road – Entebbe
P.O. Box 2750 – Kampala
Phone: (256) 0414 322607
Fax: (256) 0414 322581

### FORT PORTAL BRANCH
Plot 14, Bwamba Road – P.O. Box 359 – Fort Portal
Phone: (256) 0483 422025
Fax: (256) 0483 422025

### GULU BRANCH
Plot 11, Awere Road – P.O. Box 921 – Gulu
Phone: (256) 0471 432622
Fax: (256) 0471 432627

### HOIMA BRANCH
Plot 13, Wright Road – Hoima Town Council
Phone: (256) 465 440099
Fax: (256) 465 440099

### JINJA MAIN BRANCH
Plot 1, Main Street – P.O. Box 2095 – Jinja
Phone: (256) 0434 121013
Fax: (256) 0434 123113

### JINJA CLIVE ROAD BRANCH
Plot 18, Clive Road East – P.O. Box 2095 – Jinja
Phone: (256) 0434 120093
Fax: (256) 0434 120092

### LIRA BRANCH
Plot 1A, Balla Road – P.O. Box 292 – Lira
Phone: (256) 0473 420050
Fax: (256) 0473 420049

### MBALE BRANCH
Plot 26, Cathedral Avenue – P.O. Box 553 – Mbale
Phone: (256) 0454 432255
Fax: (256) 0454 432256

### MBARARA BRANCH
Plot 1, Mbaguta Street – P.O. Box 1163 – Mbarara
Phone: (256) 0485 420153
Fax: (256) 0485 420173

### PATONGO BRANCH
Plot 33, Dollo Road – Patongo Town Council
Phone: (256) 414 302789

www.bank-of-africa.net

5/2012 - CR 13350 (A) - TAM TAM TEAM - Photos nature © 1- Duncan Noakes; 2- Jerry23; 3- Oleg Fedorkin; 4-Jamesh.Fotolia.com