BANK OF AFRICA - UGANDA

ANNUAL REPORT 2009

Life in colours

BANK OF AFRICA
UGANDA
GROUPE BANK OF AFRICA

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Group

BANK OF AFRICA - BENIN

20 ◆ Cotonou ●

16 ▲ Abomey-Calavi, Allada, Azové, Bohicon, Cocotomey, Comé, Dassa-Zoumé, Djougou, Kandi, Natitingou, Parakou 1, Parakou 2, Pobè, Porto-Novo, Sèmè Kraké, Ouando (Porto-Novo).

BANK OF AFRICA - BURKINA FASO

12 ◆ Ouagadougou ●

6 ▲ Bobo-Dioulasso, Essakane, Fada N'Gourma, Koudougou, Koupéla, Pouytenga.

BANK OF AFRICA - CÔTE D'IVOIRE

10 ◆ Abidjan ●

8 ▲ Bouaké, Daloa, Gagnoa, Korhogo, San Pedro, Sinfra, Soubré, Yamoussoukro.

BANK OF AFRICA - MALI

10 ◆ Bamako ●

6 ▲ Kayes, Koulikoro, Koutiala, Nioro du Sahel, Ségou, Sikasso.

2 ▲ Morila (Sikasso), Sadiola (Kayes).

BANK OF AFRICA - NIGER

6 ◆ Niamey ●

6 ▲ Agadez, Dosso, Gaya, Maradi, Tahoua, Tillaberi.

BANK OF AFRICA - SENEGAL

11 ◆ Dakar ●

3 ▲ Kaolack, Saly Portudal, Touba.

BANQUE DE L'HABITAT DU BENIN

1 ◆ Cotonou ●

Banks and Subsidiaries at end 2009

BOA - FRANCE

1 ◆ Paris, France ●

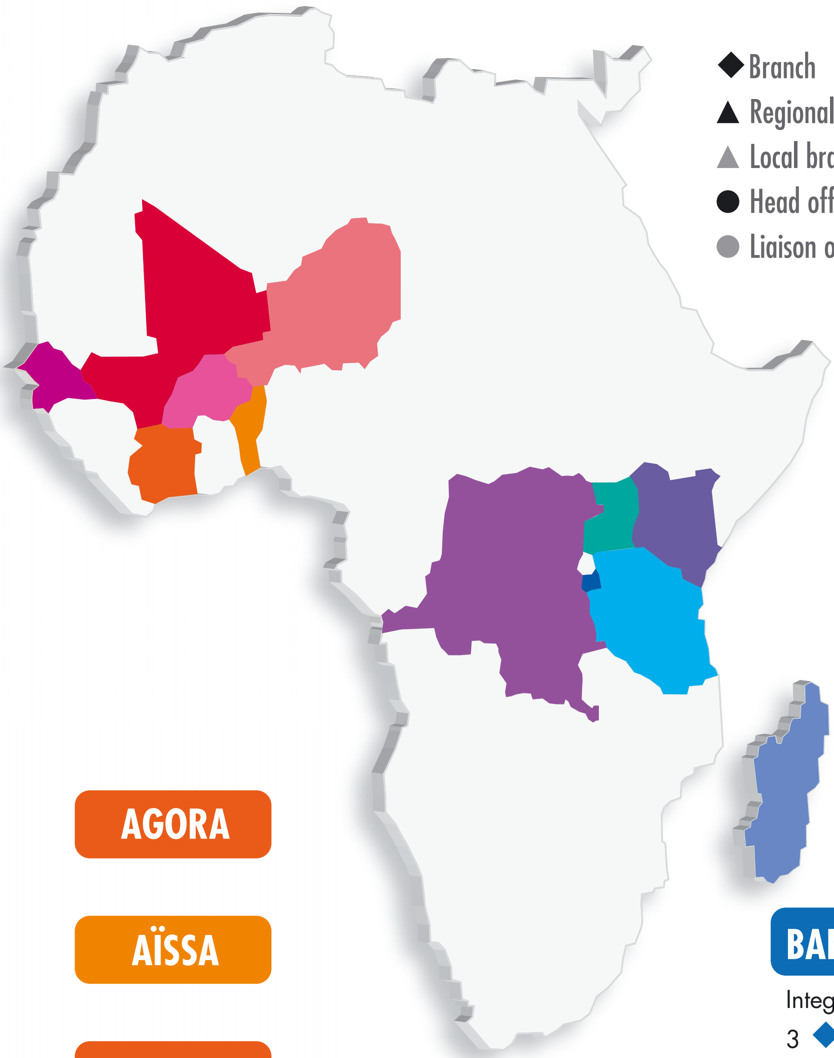
REPRESENTATIVE OFFICE

1 ◆ Paris, France ●

BANK OF AFRICA - KENYA

6 ◆ Nairobi ●

3 ▲ Kisumu, Mombasa, Thika.



◆ Branch

▲ Regional branch

▲ Local branch

● Head office

● Liaison office

BOA BANK - TANZANIA

8 ◆ Dar es Salaam ●

4 ▲ Arusha, Morogoro, Moshi, Mwanza.

BANK OF AFRICA - UGANDA

9 ◆ Kampala ●

10 ▲ Arua, Entebbe, Fort Portal, Gulu, Jinja (2), Lira, Mbale, Mbarara, Mukono.

BANK OF AFRICA - RDC

1 ◆ Kinshasa ●

BANK OF AFRICA - MADAGASCAR

18 ◆ Antananarivo ●

43 ▲ Throughout the country.

BANQUE DE CREDIT DE BUJUMBURA (BCB)

Integrated into BOA network in 2008.

3 ◆ Bujumbura ●

9 ▲ Gihofi, Gitega, Kayanza, Kirundo, Muyinga, Ngozi, Rumonge, Rugombo, Ruyigi.

AGORA

AÏSSA

ATTICA

EQUIPBAIL-BENIN

EQUIPBAIL-MALI

EQUIPBAIL-MADAGASCAR

ACTIBOURSE

Cotonou ●

1 contact in each BOA company

1 ● Abidjan.

BOA-ASSET MANAGEMENT

Abidjan ●

BANK OF AFRICA FOUNDATION

Bamako ●

7 ● Abidjan, Antananarivo, Cotonou, Dakar, Kampala, Niamey, Ouagadougou.

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

A strong network

- *More than 3,000 people at your service.*
- *Major holding in several life insurance companies.*
- *About 250 dedicated operating and service support offices in 13 countries, excluding affiliated partners.*
- *A continuously expanding fleet of Automated Teller Machines and Electronic Payment Terminals.*
- *Over 700,000 bank accounts.*

A wide and varied offer

- *Full range of banking and financial services.*
- *Attractive range of life insurance policies.*
- *Tailored solutions for all financing issues.*
- *Successful financial engineering.*

Group turnover in 2009

±270

million €

Strategic partners, including:

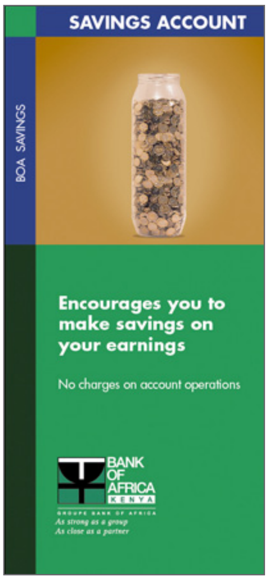
- Banque Marocaine du Commerce Extérieur (BMCE Bank),
- Proparco,
- International Finance Corporation (IFC - World Bank Group),
- West African Development Bank (BOAD),
- Netherlands Development Finance Company (FMO),
- Belgium Investment Company for Developing Countries (BIO),
- and investment fund Aureos.

Unique experience in Africa

- Continuous development for almost 30 years.

Main products of the Bank

BANK OF AFRICA english speaking network			BOA-UGANDA Ltd
Accounts	Current Account	(Local & Foreign Currency)	●
	Remunerated Current Account		●
Investment Products	Call Deposits Account		●
	Chama Account		
	Children Savings Account	« Watoto »	●
	Classic Savings Account		●
	Family Savings Account		
	Ero Savings Account		●
	Forexave Account		●
	Gold Plus Account		●
	Investment Plan Account		
	Ordinary Savings Account		●
	Premium Plus Fixed Deposit		
	Reward Savings Account		●
	Schools Fees Account		●
	Senior Citizen Fixed Deposit		
	SESAME Savings Account		●
	Student Investment Teams		
	Term Deposit		●
Electronic Banking	B-Web		●
	B-SMS / B-Phone		●
	SESAME ATM Card		●
Loans & Advances	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		●
BOA Company Services	BOA-UGANDA Ltd also offers a wide range of products and services to the attention of Corporates and, SMEs, Organizations, Institutionals and Professionals.		
Transfers and foreign exchanges	Foreign Exchange		●
	Moneygram		●
	Travellers Cheques		
	Western Union		
Complementary Products & Services	Banker's Cheques		●



Activity Report 2009

Making life easier

Comments from the Managing Director

The Ugandan economy remained resilient and is estimated to have grown by 7% in 2008/9 despite the effect of the recession in the advanced and emerging market economies emanating from the Global financial meltdown. The resilience of the economy stems from the sound macroeconomic management, robust regional and diversified trade and economic reforms. The growth momentum is expected to be carried forward into Financial Year 2009/10 onwards taking into account the current oil exploration and development activities in the country.

In the first half of the year, monetary policy remained focused on maintaining price stability, providing a conducive environment for financial intermediation, thus supporting robust private sector growth. The inflation rate averaged 14.1% in 2008/9 on account of higher food prices and imported inflation. It later eased to 10.9% in December 2009. The Shilling depreciated by 30.8% against the U.S. Dollar from an average of Shs1,634 per US$ in July 2008 to Shs 2,137 in June 2009. However, it improved in the last half of 2009 and closed the year at Shs1,905.

2009 saw no new entrants in the banking sector. However, there was a vigorous expansion drive by a few banks out of Kampala. Launched in December 2008, the Credit Reference Bureau and the Financial Card System have gained momentum as infrastructure for information sharing by banks. The issuance of the Financial Card with unique client identification came in handy in the absence of a National Identification System. This coupled with the sound supervision of the banking sector by the Central Bank resulted in the relatively low level of the non-performing assets.

BANK OF AFRICA – UGANDA (BOA-UGANDA) continued with its expansion strategy and increased its foot print to garner more business by opening four branches, two of which are upcountry, one in Kampala and the other in Entebbe Municipality.

In so doing it created more employment opportunities. In pursuit of its strategy to introduce new products, the Bank started on negotiations for new credit lines, results of which are expected in 2010. The shareholders also increased the capital base by a further Shs. 4 billion in rights issue to support the expansion drive and the ever increasing customer financing needs. The Bank implemented performance management system to monitor staff performance and assess their productivity as a basis of enhancing their career development and efficiency. As a commitment to serve our customers better and promote excellence, the bank developed a Customer Service Charter which is accessible in all banking halls.

As a result of the above efforts, the asset base grew by 29% with the biggest part contributed by loans and advances to customers as well as investment in securities. The growth in asset base was mainly funded by customer deposits which also grew by 25%. Net profit for the year was Shs 3,3 billion.

As a way of giving back to society, BOA-UGANDA was involved in a number of initiatives including donation of specialized beds to the Neurosurgery ward of Mulago Hospital, support of a financial literacy program to 1,000 primary school pupils and a mentorship activity for Small Business enterprises. The branches also performed various activities in their localities including donation of wheel chairs to disadvantaged groups and participation in community work.

On behalf of the BOA-UGANDA fraternity, I wish to acknowledge the significant contribution by all our stakeholders and more so our esteemed customers whose loyalty has seen us grow from strength to strength. It has been our privilege and pleasure to serve you in the past years and we wish you well for the future as it poses its own challenges.

Edigold MONDAY

Ag. Managing Director

Highlights 2009

❶ *BOA staff at Junior Achievers Program.*

April

- Opened ATM at Oasis Shopping Mall in Kampala.

May

- Successfully organised customer care week.
- Launched a Business Mentorship program for SMEs in Lira and Arua.
- Participation in the Groupe BANK OF AFRICA network management meeting, in Abidjan.

June

- Opened Wandegeya Branch.

July

- Sponsored (photo ❶) a Financial Education Program for 1,000 pupils in 10 primary schools.

September

- Opened Jinja mini-Branch.

October

- Opened Entebbe Branch (photo ❷).

November

- Opened Fort Portal Branch (photo ❸).

December

- Launch of the Easy Ride (photo ❹) product, an asset financing facility for Motorcycle transport operators.

Key figures

On 31/12/2009

❷ *Entebbe Branch opening.*

❸ *Fort Portal Branch opening.*

❹ *Launch of the Easy Ride product.*

Total Assets

223,737

UGX million

Activity

Customer Deposits*	159,828
Loans*	115,278

Income

Operating income*	22,312
Operating expenses*	16,917
Profit before tax*	4,218

Structure

Total Assets*	223,737
Number of employees	223

* in UGX million

(EUR 1 = UGX 2,746)

Corporate Social Responsibility Initiatives

Bank CSR Strategy

At BANK OF AFRICA – UGANDA (BOA-UGANDA), we believe that no commercial organization can guarantee truly sustainable growth without engaging in genuine partnerships with the communities in which it operates. Therefore BOA-UGANDA strives to be a visible and contributing member of the public and is committed to improving the communities in which it does business.

Our goal is to help make the communities in which we do business stronger by supporting organizations or events that achieve a positive and broad impact on education, youth, health and welfare, arts and culture and economic development in our market areas. Programs supported by the Bank strive to develop integrity, accountability, responsibility and social growth.

2009 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:

❶ *Sponsorship of Financial Education in Primary Schools*

BOA-UGANDA sponsored a financial literacy program to over 1,000 pupils in 10 primary schools around Kampala. Under this program, the pupils were educated and inspired to value free enterprise, business, and economics as a mean of improving the quality of their lives.

In partnership with Junior Achievement Uganda, the Bank ran this program under the theme 'Our Community'. The program was spread over five weeks and targeted pupils in classes Primary 3 to Primary 5. To guide the pupils through the program, BANK OF AFRICA staff volunteered to assist the school teachers in delivery of the sessions at the selected schools.

This program helped young people to gain the knowledge, life skills, values and personal characteristics to excel in school, careers and the society. The program brought real-world educational experiences to the classroom to compliment the school curricula and makes studying not only relevant but enjoyable.

❶ *Pupils receive their certificates from a BOA-UGANDA Official.*

Participating in local life

2009

❷ Support of a Business Mentorship program for Small & Medium Size Enterprises (SMEs)

The Bank partnered with the German Development Service (DED) to roll out a six months SME Business Mentorship program. The aim of this project was to make SMEs creditworthy by offering a pre-loan business mentorship program. Twenty one SMEs were selected from our up country Branch locations of Arua and Lira for this program. Following this mentorship activity, the beneficiary enterprises are now in a better position to run their businesses more profitably and become bankable. We have extended loans to five of the beneficiaries of this training amounting to a total of Ugx 259 million.

❸ *The Managing Director BOA-UGANDA, Michel KAHN, hands over the beds donated to the Neurosurgery ward of Mulago Hospital.*

❸ Donation of Specialised Hospital Beds to the Mulago Hospital Neurosurgery Ward

In September 2009, BOA-UGANDA contributed custom made hospital beds worth Ugx 5 million to the high dependency unit of the Neurosurgery Ward at Mulago Hospital. This donation was in response to a request from JMK Foundation that coordinated a project to renovate the ward. The beds were supplied by one of the Bank's customers - Circular Supplies Uganda Ltd.

The high dependence unit was created to look after critically ill patients. With this facility, patients who have undergone extensive brain or spinal surgery can now be successfully taken care of without having to wait for room at the hospital's already congested Intensive Care Unit.

❹ Donation of wheel chairs to people with disabilities

In January 2009, the Bank donated 180 wheel chairs to people with disabilities. Relevant charities were identified in up country locations of Arua, Jinja, Mbale, Mbarara and Lira where we have branches. The Bank worked with these charities to identify beneficiaries to whom the chairs were handed over directly. The benefiting charities were as below:

- Arua: 40 wheel chairs to Arua District Union of persons with disabilities;
- Jinja: 40 wheel chairs to Jinja District Union of persons with disability;
- Mbale: 40 wheel chairs to Child Restoration outreach;
- Mbarara: 30 wheel chairs to Tukore Rehabilitation centre for the handicapped;
- Lira: 30 wheel chairs to Fredis Rehabilitation center.

❹ *Some of the beneficiaries of BOA-UGANDA wheel Chair donations.*

Board of Directors

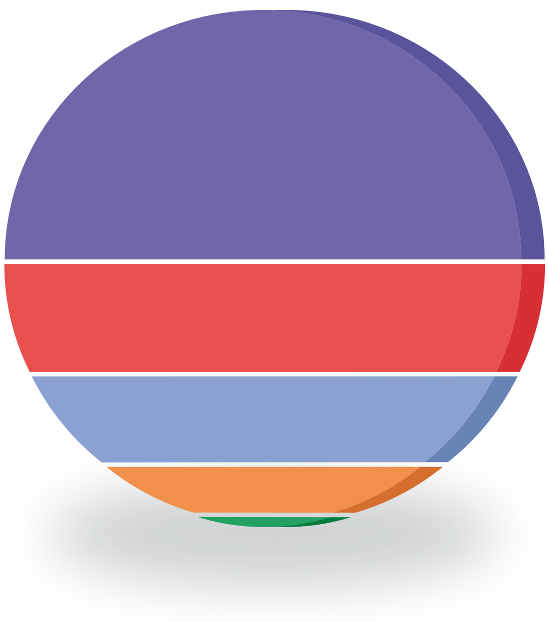
The Directors who hold office at the date of this report are:

Edigold MONDAY	Acting Managing Director
Arthur ISIKO	Executive Director
Vincent de BROUWER	Non-executive Director
Mohan KIWANUKA	Non-executive Director
Paul DERREUMAUX	Non-executive Director
Shakir MERALI	Non-executive Director
Abdelkabir BENNANI	Non-executive Director
Peter LOCK	Non-executive Director

Capital

The authorised share capital of the Bank is UGX 10,000,000,000 divided into 10,000,000 ordinary shares with par value of UGX 1,000 each. The issued share capital is UGX 7,508,219,000 at a premium of UGX 6,537,776,000.

The following was the Bank's shareholding structure as at 31st December 2009:



50.01%	BANK OF AFRICA - KENYA LTD
21.88%	AUREOS EAST AFRICA FUND LLC
17.51%	NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)
9.39%	CENTRAL HOLDINGS UGANDA LTD
1.21%	AFH-OCEAN INDIEN

Report and Financial Statements

for the year ended 31 December 2009

Making life better

Report and Financial Statements

for the year ended 31 December 2009

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2009, which disclose the state of affairs of BANK OF AFRICA - UGANDA Ltd. ("the Bank").

Principal activities

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

Results and dividend

The net profit for the year of Shs 3,321 million (2008: Shs 3,714 million) has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 1,661 million (2008: Shs 1,726 million).

Directors

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

John CARRUTHERS	Chairman
Michel KAHN	Managing Director (Appointed 14 January 2009, resigned 14 January 2010)
Edigold MONDAY	Executive Director (Appointed 17 March 2009, appointed acting Managing Director 14 January 2010)
Kwame AHADZI	Managing Director (Resigned 14 January 2009)
Arthur ISIKO	Executive Director (Appointed 14 January 2010)
Vincent de BROUWER	Non - executive Director
Mohan KIWANUKA	Non - executive Director
Paul DERREUMAUX	Non - executive Director
Shakir MERALI	Non - executive Director
Abdelkabir BENNANI	Non - executive Director (Appointed 1 September 2009)
Peter LOCK	Non - executive Director (Appointed 1 September 2009)
Richard CARTER	Non - executive Director (Resigned 17 March 2009)

Auditor

The Bank's auditor PricewaterhouseCoopers will not seek re-appointment at the annual general meeting of the Bank to be held later in the year, having reached the four year limit of continuous service in accordance with Section 67 of the Financial Institutions Act, 2004.

By order of the Board
E. HATANGA
Secretary

24 February 2010

The BANK OF AFRICA 2009 network management meeting, in Abidjan, May 2009.

The staff of BOA-UGANDA, at Head office, in Kampala.

ATM at Oasis Mall, in Kampala.

The new Entebbe Branch, with the corporate campaign outside.

Statement of Directors' Responsibilities

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

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

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

E. MONDAY	**M. KIWANUKA**	**J. CARRUTHERS**
Ag. Managing Director	Director	Chairman

24 February 2010

The Fort Portal Branch and 2009 corporate campaign.

Report of the independent auditor

to the Members of BANK OF AFRICA – UGANDA Limited.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of BANK OF AFRICA - UGANDA Ltd. set out on pages 19 to 60. These financial statements comprise the balance sheet at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

Auditor's responsibility (continued)

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Bank's financial affairs at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Uganda Companies Act and the Financial Institutions Act 2004.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

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

PRICEWATERHOUSECOOPERS

Certified Public Accountants

Kampala

24 February 2010

Financial Statements

for the year ended 31 December 2009

Making life different

Financial Statements

Statement of comprehensive income

	NOTES	2009 SHS MILLIONS	2008 SHS MILLIONS
INTEREST INCOME	5	23,778	17,226
INTEREST EXPENSE	6	(9,994)	(6,396)
NET INTEREST INCOME		**13,784**	**10,830**
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	13	(820)	(270)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		**12,964**	**10,560**
FEE AND COMMISSION INCOME		6,981	6,183
FEE AND COMMISSION EXPENSE		(836)	(683)
NET FEE AND COMMISSION INCOME		**6,145**	**5,500**
FOREIGN EXCHANGE INCOME	33	2,302	1,873
OTHER OPERATING INCOME		80	160
LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	32	(356)	-
OPERATING EXPENSES	7	(16,917)	(13,527)
PROFIT BEFORE INCOME TAX		**4,218**	**4,566**
INCOME TAX EXPENSE	9	(897)	(852)
PROFIT FOR THE YEAR		**3,321**	**3,714**
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,321**	**3,714**
BASIC AND DILUTED EARNINGS PER SHARE (SHS)	**31**	**481**	**696**
DIVIDEND PER SHARE (SHS)	**30**	**229**	**275**

Balance sheet

	NOTES	31 DECEMBER 2009 SHS MILLIONS	31 DECEMBER 2008 SHS MILLIONS
ASSETS			
CASH AND BALANCES WITH BANK OF UGANDA	10	22,596	22,010
AMOUNTS DUE FROM OTHER BANKS	11	20,345	16,798
AMOUNTS DUE FROM GROUP COMPANIES	29	437	2,341
LOANS AND ADVANCES TO CUSTOMERS	13	115,278	84,453
INVESTMENT SECURITIES:			
- AT FAIR VALUE THROUGH PROFIT OR LOSS	14	803	785
- HELD-TO-MATURITY	14	47,944	33,060
PROPERTY AND EQUIPMENT	15	11,460	8,639
INTANGIBLE ASSETS	16	1,021	1,370
CURRENT INCOME TAX RECOVERABLE	17	491	359
OTHER ASSETS	19	3,362	3,341
TOTAL ASSETS		**223,737**	**173,156**
LIABILITIES			
CUSTOMER DEPOSITS	20	159,828	127,595
AMOUNTS DUE TO BANKS	21	14,166	3,133
AMOUNTS DUE TO GROUP COMPANIES	29	623	3,240
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	12	14	-
OTHER BORROWED FUNDS	22	20,262	16,859
DEFERRED INCOME TAX LIABILITIES	18	183	70
OTHER LIABILITIES	23	2,463	1,686
TOTAL LIABILITIES		**197,539**	**152,583**
EQUITY			
SHARE CAPITAL	24	7,508	6,278
SHARE PREMIUM	24	6,538	3,738
REGULATORY RESERVE	25	1,400	835
PROPOSED DIVIDENDS	30	1,661	1,726
RETAINED EARNINGS		9,091	7,996
TOTAL EQUITY		**26,198**	**20,573**
TOTAL EQUITY AND LIABILITIES		**223,737**	**173,156**

The Financial Statements on pages 19 to 60 were approved for issue by the Board of Directors on 24 Febraury 2010 and signed on its behalf by:

E. MONDAY	**M. KIWANUKA**	**J. CARRUTHERS**	**E. HATANGA**
Ag. Managing Director	Director	Chairman	Secretary

Financial Statements

Statement of changes in equity

	NOTE	SHARE CAPITAL SHS MILLIONS	SHARE PREMIUM SHS MILLIONS	REGULATORY RESERVE SHS MILLIONS	PROPOSED DIVIDEND SHS MILLIONS	RETAINED EARNINGS SHS MILLIONS	TOTAL SHS MILLIONS
YEAR ENDED 31 DECEMBER 2008							
AT START OF YEAR:							
- AS PREVIOUSLY STATED		4,542	757	558	681	6,451	12,989
- PRIOR YEAR ADJUSTMENT		-	-	-	-	(166)	(166)
AS RESTATED		4,542	757	558	681	6,285	12,823
COMPREHENSIVE INCOME							
PROFIT FOR THE YEAR		-	-	-	-	3,714	3,714
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME		**-**	**-**	**-**	**-**	**3,714**	**3,714**
TRANSACTIONS WITH OWNERS							
ISSUE OF SHARES	24	1,736	2,981	-	-	-	4,717
TRANSFER TO REGULATORY RESERVE	25	-	-	277	-	(277)	-
FINAL DIVIDEND PAID FOR 2007		-	-	-	(681)	-	(681)
PROPOSED DIVIDEND FOR 2008		-	-	-	1,726	(1,726)	-
AT END OF YEAR		**6,278**	**3,738**	**835**	**1,726**	**7,996**	**20,573**
YEAR ENDED 31 DECEMBER 2009							
AT START OF YEAR		6,278	3,738	835	1,726	7,996	20,573
COMPREHENSIVE INCOME							
PROFIT FOR THE YEAR		-	-	-	-	3,321	3,321
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME		**-**	**-**	**-**	**-**	**3,321**	**3,321**
TRANSACTIONS WITH OWNERS							
ISSUE OF SHARES	24	1,230	2,800	-	-	-	4,030
TRANSFER TO REGULATORY RESERVE	25	-	-	565	-	(565)	-
FINAL DIVIDEND PAID FOR 2008	30	-	-	-	(1,726)	-	(1,726)
PROPOSED DIVIDEND FOR 2009		-	-	-	1,661	(1,661)	-
AT END OF YEAR		**7,508**	**6,538**	**1,400**	**1,661**	**9,091**	**26,198**

for the year ended 31 December 2009

Statement of cash flows

	NOTES	2009 SHS MILLIONS	2008 SHS MILLIONS
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		23,565	17,122
INTEREST PAYMENTS		(8,983)	(4,683)
NET FEE AND COMMISSION RECEIPTS		6,145	5,500
OTHER INCOME RECEIVED		2,375	2,032
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF	13	837	276
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(17,094)	(13,063)
INCOME TAX PAID	17	(916)	(338)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		5,929	6,846
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(30,476)	(29,500)
- CASH RESERVE REQUIREMENT		(3,862)	(4,545)
- OTHER ASSETS		450	702
- CUSTOMER DEPOSITS		31,410	47,865
- DEPOSITS FROM OTHER BANKS		10,945	(2,151)
- AMOUNTS DUE TO/FROM GROUP COMPANIES		(2,617)	2,327
- OTHER LIABILITIES		228	(51)
NET CASH FROM OPERATING ACTIVITIES		**12,007**	**21,493**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	15	(4,399)	(3,692)
PURCHASE OF INTANGIBLE ASSETS	16	(31)	(138)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		86	7
PURCHASE OF SECURITIES		(16,287)	(18,151)
NET CASH USED IN INVESTING ACTIVITIES		**(20,631)**	**(21,974)**
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES	24	4,030	4,853
PROCEEDS FROM BORROWED FUNDS		3,303	13,919
DIVIDENDS PAID		(1,726)	(681)
NET CASH FROM FINANCING ACTIVITIES		**5,607**	**18,091**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,017)**	**17,610**
CASH AND CASH EQUIVALENTS AT START OF YEAR		29,806	12,196
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**26,789**	**29,806**

Notes to the Financial Statements

1 GENERAL INFORMATION

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

BANK OF AFRICA - UGANDA Ltd.
PLOT 45 JINJA ROAD
P. O. BOX 2750
KAMPALA, UGANDA.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(i) Amendments to existing standards adopted by the Bank

- IAS 1 (revised), 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. The change in accounting policy will only impact presentation of primary statements.
- IFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures and no significant impact on the Bank.

(ii) Standards, amendments and interpretations to existing standards effective in 2009 but not relevant to the Bank

In 2009, the following amendments to existing standards became effective but are not relevant to the bank.

- IFRS 8, 'Operating segments' – effective 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. It is relevant for entities whose debt or equity instruments are traded in a public market or files financial statements with a securities commission for the purpose of issuing any class of instruments in a public market.

- IFRS 2 (amendment), 'Share-based payment' - effective from 1 January 2009. It clarifies that vesting conditions are service conditions and performance conditions only. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

- IAS 23 (amendment), 'Borrowing costs' - effective from 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset.

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

Two revised standards (IFRS 3 – Business combinations and IAS 27 – Consolidated and separate financial statements) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Bank's accounting periods beginning on or after 1 January 2010, but the Bank has not early adopted any of them.

The Directors have assessed the relevance of the new standards, interpretations, and amendments to existing standards with respect to the Bank's operations and concluded that they will not have a significant impact on the Bank's financial statements.

(B) 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.

(C) FEES AND COMMISSION INCOME

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

(D) 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 ("Shs") 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.

(E) FINANCIAL ASSETS

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

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

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

- doing so significantly reduces or eliminates a measurement inconsistency; or
- they form part of group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

(ii) Loans, advances and receivables

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

(iii) Held-to maturity

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

(iv) Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any other categories.

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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

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

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

(F) DERIVATIVE FINANCIAL INSTRUMENTS

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

(G) IMPAIRMENT OF FINANCIAL ASSETS

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

(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.

(i) Assets carried at amortised cost

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

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

(i) Assets carried at amortised cost (continued)

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

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

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

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

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

(ii) Assets carried at fair value

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

(H) PROPERTY AND EQUIPMENT

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

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

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

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

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

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

(I) 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).

(J) INCOME TAX

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

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

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

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

(K) ACCOUNTING FOR LEASES

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

(i) With the Bank as lessee

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

(ii) With the Bank as lessor

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

(L) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and 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.

(M) EMPLOYEE BENEFITS

(i) Retirement benefit obligations

The Bank operates a defined contribution retirement benefit scheme for its permanent employees. The Bank and all its employees also contribute to the National Social Security Fund, which is a defined contribution plan. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Bank and employees.

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

(ii) Other entitlements

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

(N) BORROWINGS

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

(O) OFFSETTING

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

(P) SALE AND REPURCHASE AGREEMENTS

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

(Q) 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.

(R) DIVIDENDS PAYABLE

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

(S) FIDUCIARY ACTIVITIES

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

(T) ACCEPTANCES AND LETTERS OF CREDIT

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

(U) DEPOSITS

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

3 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.

4 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:

(a) 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.

(b) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that 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.

	2009		2008	
BANK'S RATING	CREDIT EXPOSURE %	IMPAIRMENT ALLOWANCE %	CREDIT EXPOSURE %	IMPAIRMENT ALLOWANCE %
PERFORMING	90.7	39.5	94.7	47.6
WATCH	6.3	2.7	2.9	1.4
SUBSTANDARD	2.0	9.0	1.9	21.4
DOUBTFUL	0.7	26.6	0.1	0.1
LOSS	0.3	22.2	0.4	29.5
TOTAL	**100.0**	**100.0**	**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 EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
BALANCES WITH BANK OF UGANDA	10,045	12,774
AMOUNTS DUE FROM OTHER BANKS	20,345	16,798
AMOUNTS DUE FROM GROUP COMPANIES	437	2,341
LOANS AND ADVANCES TO CUSTOMERS	115,278	84,453
INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT	803	785
INVESTMENT SECURITIES HELD-TO-MATURITY	47,944	33,060
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	15,702	18,419
- GUARANTEE AND PERFORMANCE BONDS	21,071	19,580
- COMMITMENTS TO LEND	7,777	5,593
TOTAL	**239,402**	**193,803**

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2009 and 2008, 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, 57% of the total maximum exposure is derived from loans and advances to banks and customers (2008: 53%). 20% represents investments in debt securities (2008: 17%).

Loans and advances to customers other than loans to salaried customers amounting to Shs. 48,110 million (2008: Shs. 47,239 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:

- the Bank exercises stringent controls over the granting of new loans;
- 98% of the loans and advances portfolio are neither past due nor impaired;
- 41% of the loans and advances portfolio are backed by collateral;
- 98% of the investments in debt securities are government securities.

FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
NEITHER PAST DUE NOR IMPAIRED	113,200	79,025
PAST DUE BUT NOT IMPAIRED	2,400	5,354
INDIVIDUALLY IMPAIRED	1,172	1,093
GROSS	116,772	85,472
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 13)	(1,494)	(1,019)
NET	**115,278**	**84,453**

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:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
PERFORMING	105,869	76,557
WATCH	7,331	2,468
TOTAL	**113,200**	**79,025**

Notes to the Financial Statements

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:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
PAST DUE UP TO 30 DAYS	1,003	3,130
PAST DUE 31 – 60 DAYS	359	1,235
PAST DUE 61 – 90 DAYS	259	-
PAST DUE OVER 90 DAYS	779	989
TOTAL	**2,400**	**5,354**

LOANS AND ADVANCES INDIVIDUALLY IMPAIRED:

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

	LOANS		OVERDRAFTS	
	2009	2008	2009	2008
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES				
- CORPORATE	113	478	-	276
- SME	396	-	224	144
- CONSUMER	277	13	162	182
TOTAL	**786**	**491**	**386**	**602**
FAIR VALUE OF COLLATERAL	**494**	**581**	**494**	**581**

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

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

AT 31 DECEMBER 2009	LOANS & ADVANCES %	CREDIT COMMITMENTS %	CUSTOMER DEPOSITS %
AGRICULTURAL	3.1	1.5	5.1
MANUFACTURING	2.5	8.7	0.9
TRADE AND COMMERCE	33.3	16.4	8.2
FINANCIAL SERVICES	3.2	3.6	20.4
TRANSPORT AND UTILITIES	7.3	7.1	5.1
BUILDING AND CONSTRUCTION	10.1	37.8	7.2
INDIVIDUALS	11.0	4.2	18.1
OTHER	29.6	20.7	35.0
TOTAL	**100.0**	**100.0**	**100.0**
AT 31 DECEMBER 2008			
AGRICULTURAL	5.7	0.3	3.0
MANUFACTURING	0.2	-	0.7
TRADE AND COMMERCE	28.9	32.1	9.7
FINANCIAL SERVICES	2.6	25.4	17.6
TRANSPORT AND UTILITIES	5.1	14.4	2.3
BUILDING AND CONSTRUCTION	15.2	3.2	8.9
INDIVIDUALS	21.3	5.6	28.6
OTHER	21.0	19.0	29.2
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 Shs 484 million (2008: Shs 478 million).

Repossessed collateral

During 2009, the Bank obtained assets by taking possession of collateral held as security as follows:

NATURE OF ASSETS	CARRYING AMOUNT SHS MILLIONS
RESIDENTIAL PROPERTY	575

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 maintain a cash reserve ratio. 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. All figures are in millions of Uganda Shillings.

AT 31 DECEMBER 2009	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
CASH AND BANK BALANCES WITH BANK OF UGANDA	22,596	-	-	-	-	22,596
AMOUNTS DUE FROM BANKING INSTITUTIONS	20,345	-	-	-	-	20,345
AMOUNTS DUE FROM GROUP COMPANIES	437	-	-	-	-	437
LOANS AND ADVANCES TO CUSTOMERS	36,268	7,663	11,367	47,370	12,610	115,278
INVESTMENT SECURITIES	2,215	8,157	27,589	10,786	-	48,747
PROPERTY AND EQUIPMENT	623	3	159	1,544	9,131	11,460
INTANGIBLE ASSETS	-	-	2	1,019	-	1,021
OTHER ASSETS	2,727	-	-	-	1,126	3,853
TOTAL ASSETS (EXPECTED MATURITIES)	**85,211**	**15,823**	**39,117**	**60,719**	**22,867**	**223,737**
LIABILITIES AND SHAREHOLDERS' FUNDS						
AMOUNTS DUE TO CUSTOMERS	124,836	9,211	25,504	254	23	159,828
AMOUNTS DUE TO BANKING INSTITUTIONS	12,166	2,000	-	-	-	14,166
AMOUNTS DUE TO GROUP COMPANIES	623	-	-	-	-	623
OTHER BORROWED FUNDS	-	-	155	5,777	14,330	20,262
OTHER LIABILITIES	2,660	-	-	-	-	2,660
SHAREHOLDERS' EQUITY	-	-	-	-	26,198	26,198
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS (CONTRACTUAL MATURITIES)	**140,285**	**11,211**	**25,659**	**6,031**	**40,551**	**223,737**
NET LIQUIDITY GAP	**(55,074)**	**4, 612**	**13,458**	**54,688**	**(17,684)**	

AT 31 DECEMBER 2008	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
CASH AND BANK BALANCES WITH BANK OF UGANDA	22,010	-	-	-	-	22,010
AMOUNTS DUE FROM BANKING INSTITUTIONS	16,798	-	-	-	-	16,798
AMOUNTS DUE FROM GROUP COMPANIES	401	-	1,940	-	-	2,341
LOANS AND ADVANCES TO CUSTOMERS	29,601	4,863	6,183	36,346	7,460	84,453
INVESTMENT SECURITIES	3,000	14,247	16,074	524	-	33,845
PROPERTY AND EQUIPMENT	-	-	-	1,150	7,489	8,639
INTANGIBLE ASSETS	-	-	-	1,370	-	1,370
OTHER ASSETS	3,700	-	-	-	-	3,700
TOTAL ASSETS (EXPECTED MATURITIES)	**75,510**	**19,110**	**24,197**	**39,390**	**14,949**	**173,156**
LIABILITIES AND SHAREHOLDERS' FUNDS						
AMOUNTS DUE TO CUSTOMERS	102,359	5,104	20,422	4,684	-	132,569
AMOUNTS DUE TO BANKING INSTITUTIONS	1,350	1,783	-	-	-	3,133
AMOUNTS DUE TO GROUP COMPANIES	2,678	562	-	-	-	3,240
OTHER BORROWED FUNDS	412	-	30	4,980	11,437	16,859
OTHER LIABILITIES	1,756	-	-	-	-	1,756
SHAREHOLDERS' EQUITY	-	-	-	-	20,573	20,573
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS (CONTRACTUAL MATURITIES)	**108,555**	**7,449**	**20,452**	**9,664**	**32,010**	**178,130**
NET LIQUIDITY GAP	**(33,045)**	**11,661**	**3,745**	**29,726**	**(17,061)**	

(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 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.

Notes to the Financial Statements

MARKET RISK MANAGEMENT (CONTINUED)

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 2009	USD	GBP	EUR	OTHER	TOTAL
ASSETS					
CASH AND BALANCES WITH BANK OF UGANDA	2,429	491	2,076	119	5,115
AMOUNTS DUE FROM OTHER BANKS	9,872	1,566	4,838	46	16,322
AMOUNTS DUE FROM GROUP COMPANIES	94	15	13	315	437
LOANS AND ADVANCES TO CUSTOMERS	18,824	73	1,635	4	20,536
OTHER ASSETS	808	-	-	-	808
TOTAL ASSETS	**32,027**	**2,145**	**8,562**	**484**	**43,218**
LIABILITIES					
CUSTOMER DEPOSITS	28,182	479	7,237	22	35,920
AMOUNTS DUE TO BANKS	108	-	-	368	476
AMOUNTS DUE TO GROUP COMPANIES	-	617	-	-	617
OTHER LIABILITIES	5,892	825	5	10	6,732
TOTAL LIABILITIES	**34,182**	**1,921**	**7,242**	**400**	**43,745**
NET ON-BALANCE SHEET POSITION	**(2,155)**	**224**	**1,320**	**84**	**(527)**
NET OFF-BALANCE SHEET POSITION	**2,445**	**(339)**	**(1,250)**	**-**	**856**
OVERALL NET POSITION	**290**	**(115)**	**70**	**84**	**329**
AT 31 DECEMBER 2008					
TOTAL ASSETS	28,935	1,614	8,278	1,144	39,971
TOTAL LIABILITIES	28,340	1,326	7,303	1,115	38,084
NET ON-BALANCE SHEET POSITION	**595**	**288**	**975**	**29**	**1,887**
NET OFF-BALANCE SHEET POSITION	**246**	**(272)**	**(910)**	**25**	**(911)**
OVERALL NET POSITION	**841**	**16**	**65**	**54**	**976**

(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.

AT 31 DECEMBER 2009	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	OVER 1 YEAR	NON-INTEREST BEARING	TOTAL
ASSETS						
CASH AND BALANCES WITH BANK OF UGANDA	-	-	-	-	22,596	22,596
AMOUNTS DUE FROM OTHER BANKS	20,345	-	-	-	-	20,345
AMOUNTS DUE FROM GROUP COMPANIES	-	-	-	-	437	437
LOANS AND ADVANCES TO CUSTOMERS	36,268	7,663	11,367	59,980	-	115,278
INVESTMENT SECURITIES HELD TO MATURITY	2,215	8,157	27,589	10,786	-	48,747
PROPERTY AND EQUIPMENT	-	-	-	-	11,460	11,460
INTANGIBLE ASSETS	-	-	-	-	1,021	1,021
OTHER ASSETS	-	-	-	-	3,853	3,853
TOTAL ASSETS	**58,828**	**15,820**	**38,956**	**70,766**	**39,367**	**223,737**
LIABILITIES AND SHAREHOLDERS' FUNDS						
CUSTOMER DEPOSITS	74,936	9,211	25,504	277	49,900	159,828
AMOUNTS DUE TO BANKS	12,166	2,000	-	-	-	14,166
AMOUNTS DUE TO GROUP COMPANIES	-	-	-	-	623	623
OTHER BORROWED FUNDS	-	-	155	20,107	-	20,262
OTHER LIABILITIES	-	-	-	-	2,660	2,660
SHAREHOLDERS' FUNDS	-	-	-	-	26,198	26,198
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	**87,102**	**11,211**	**25,659**	**20,384**	**79,381**	**223,737**
INTEREST SENSITIVITY GAP	**(28,274)**	**4,609**	**13,297**	**50,382**		
AT 31 DECEMBER 2008						
TOTAL ASSETS	49,800	19,110	24,197	44,330	35,719	173,156
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	62,579	7,307	20,383	18,828	64,059	173,156
INTEREST SENSITIVITY GAP	**(12,779)**	**11,803**	**3,814**	**25,502**		

(ii) Interest rate risk (continued)

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 2009 and 2008 were in the following ranges:

	2009		2008	
	IN SHS	IN US$	IN SHS	IN US$
ASSETS				
AMOUNTS DUE FROM BANKS	4%	1%	17%	5%
LOANS AND ADVANCES TO CUSTOMERS	19%	10%	20%	13%
INVESTMENT SECURITIES	10%	-	12%	-
LIABILITIES				
AMOUNTS DUE TO CUSTOMERS	8%	2%	6%	1%
AMOUNTS DUE TO BANKS	5%	-	11%	-
OTHER BORROWED FUNDS	9%	5%	10%	-

(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
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
31 DECEMBER 2009				
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	803	-	-	803
31 DECEMBER 2008				
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	785	-	-	785

At 31 December 2009 and 2008 the Bank did not have financial liabilities measured at fair value.

FINANCIAL INSTRUMENTS BY CATEGORY

	LOANS AND RECEIVABLES	ASSETS AT FAIR VALUE THROUGH THE PROFIT & LOSS	HELD-TO-MATURITY	TOTAL
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
31 DECEMBER 2009				
ASSETS AS PER BALANCE SHEET				
CASH AND BALANCES WITH CENTRAL BANK	22,596	-	-	22,596
PLACEMENTS WITH OTHER BANKS	20,345	-	-	20,345
AMOUNTS DUE FROM GROUP COMPANIES	437	-	-	437
LOANS AND ADVANCES TO CUSTOMERS	115,278	-	-	115,278
INVESTMENT SECURITIES:				
- AT FAIR VALUE THROUGH PROFIT OR LOSS ACCOUNT	-	803	-	803
- HELD-TO-MATURITY	-	-	47,944	47,944
TOTAL	**158,656**	**803**	**47,944**	**207,403**
31 DECEMBER 2008				
ASSETS AS PER BALANCE SHEET				
CASH AND BALANCES WITH CENTRAL BANK	22,010	-	-	22,010
PLACEMENTS WITH OTHER BANKS	16,798	-	-	16,798
AMOUNTS DUE FROM GROUP COMPANIES	2,341	-	-	2,341
LOANS AND ADVANCES TO CUSTOMERS	84,453	-	-	84,453
INVESTMENT SECURITIES:				
- AT FAIR VALUE THROUGH PROFIT OR LOSS ACCOUNT	-	785	-	785
- HELD-TO-MATURITY	-	-	33,060	33,060
TOTAL	**125,602**	**785**	**33,060**	**159,447**

FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	LOANS AND PAYABLES	LIABILITIES AT FAIR VALUE THROUGH THE PROFIT & LOSS	DERIVATIVES	OTHER FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
31 DECEMBER 2009					
LIABILITIES AS PER BALANCE SHEET					
CUSTOMER DEPOSITS	-	-	-	159,828	159,828
DEPOSITS FROM OTHER BANKS	-	-	-	14,166	14,166
AMOUNTS DUE TO GROUP COMPANIES	-	-	-	623	623
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	14	-	14
BORROWED FUNDS	-	-	-	20,262	20,262
TOTAL	**-**	**-**	**14**	**194,879**	**194,893**
31 DECEMBER 2008					
LIABILITIES AS PER BALANCE SHEET					
CUSTOMER DEPOSITS	-	-	-	127,595	127,595
DEPOSITS FROM OTHER BANKS	-	-	-	3,133	3,133
AMOUNTS DUE TO GROUP COMPANIES	-	-	-	3,240	3,240
BORROWED FUNDS	-	-	-	16,859	16,859
TOTAL	**-**	**-**	**-**	**150,827**	**150,827**

(E) 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 regulatory capital of 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.

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December:

	BALANCE SHEET AMOUNT		RISK WEIGHTED AMOUNT	
	2009	2008	2009	2008
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
BALANCE SHEET ASSETS (NET OF PROVISIONS)				
CASH AND BALANCES WITH BANK OF UGANDA	22,596	22,010	-	-
AMOUNTS DUE FROM OTHER BANKS	20,345	16,798	8,959	4,012
AMOUNTS DUE FROM GROUP COMPANIES	437	2,341	437	2,341
DERIVATIVE FINANCIAL INSTRUMENTS	-	-	-	-
LOANS AND ADVANCES TO CUSTOMERS	115,278	84,453	115,278	84,453
INVESTMENT SECURITIES HELD TO MATURITY	47,944	33,060	-	-
INVESTMENT SECURITIES AT FAIR VALUE THROUGH THE PROFIT AND LOSS ACCOUNT	803	785	-	-
PROPERTY AND EQUIPMENT	11,460	8,639	11,460	8,639
INTANGIBLE ASSETS	1,021	1,370	1,021	1,370
CURRENT INCOME TAX ASSETS	491	359	-	-
OTHER ASSETS	3,362	3,341	3,362	3,341
TOTAL	**223,737**	**173,156**	**140,517**	**104,156**
OFF-BALANCE SHEET POSITIONS				
CONTINGENTS SECURED BY CASH COLLATERAL	1,731	5,999	-	-
GUARANTEES	-	-	-	-
PERFORMANCE BONDS	19,340	16,136	9,670	8,068
LETTERS OF CREDIT AND ACCEPTANCES	15,702	15,864	3,140	3,173
COMMITMENTS TO LEND	7,777	5,593	3,889	2,797
CREDIT RELATED COMMITMENTS	**44,550**	**43,592**	**16,699**	**14,038**
TOTAL RISK-WEIGHTED ASSETS	**268,287**	**216,748**	**157,216**	**118,194**

Notes to the Financial Statements

CAPITAL RATIOS PER FINANCIAL INSTITUTIONS ACT (FIA) 2004

	CAPITAL AMOUNT RESTATED		BANK RATIO		FIA 2004 MINIMUM RATIO	
	2009	2008	2009	2008	2009	2008
CORE CAPITAL	SHS MILLIONS	SHS MILLIONS	%	%	%	%
PERMANENT SHAREHOLDERS' EQUITY (ISSUED AND FULLY PAID UP)	7,508	6,278				
SHARE PREMIUM	6,538	3,738				
PRIOR YEARS' RETAINED PROFITS	5,770	4,282				
NET AFTER-TAX PROFITS CURRENT YEAR-TO-DATE	3,321	3,714				
LESS: UNREALISED FOREIGN EXCHANGE GAINS	(425)	-				
TOTAL (TIER 1)	22,712	18,012	14.4	15.2	8	8
SUPPLEMENTARY CAPITAL						
UNENCUMBERED GENERAL PROVISION FOR LOSSES	1,400	835				
SUBORDINATED TERM DEBT	5,805	5,852				
TOTAL (TIER 2)	7,205	6,687				
TOTAL CAPITAL (TIER 1 + TIER 2)	29,917	24,699	19.0	20.9	12	12

5 INTEREST INCOME

	2009	2008
	SHS MILLIONS	SHS MILLIONS
LOANS AND ADVANCES	17,918	12,729
GOVERNMENT SECURITIES	5,233	3,375
CASH AND SHORT TERM FUNDS	627	1,122
TOTAL	23,778	17,226

Interest income recognised on impaired financial assets was Shs 362 million (2008: Shs 341 million).

6 INTEREST EXPENSE

	2009	2008
	SHS MILLIONS	SHS MILLIONS
CUSTOMER DEPOSITS	7,321	4,874
DEPOSITS BY BANKS	569	505
BORROWED FUNDS	1,696	1,012
OTHER	408	5
TOTAL	9,994	6,396

7 OPERATING EXPENSES

The following items are included within operating expenses:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
EMPLOYEE BENEFITS EXPENSE (NOTE 8)	8,308	6,338
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 15)	1,494	914
AMORTISATION OF INTANGIBLES (NOTE 16)	380	411
OPERATING LEASE RENTALS	25	25
AUDITORS' REMUNERATION	73	67

8 EMPLOYEE BENEFITS EXPENSE

The following items are included within employee benefits expense:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
RETIREMENT BENEFIT COSTS		
- DEFINED CONTRIBUTION SCHEME CONTRIBUTIONS	92	131
- NATIONAL SOCIAL SECURITY FUND CONTRIBUTIONS	505	344

9 INCOME TAX EXPENSE

	2009	2008
	SHS MILLIONS	SHS MILLIONS
CURRENT INCOME TAX (NOTE 17)	784	1,060
DEFERRED INCOME TAX (NOTE 18)	113	(208)
TOTAL	**897**	**852**

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

	2009	2008
	SHS MILLIONS	SHS MILLIONS
PROFIT BEFORE INCOME TAX	**4,218**	**4,566**
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2008: 30%)	1,265	1,370
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(1,797)	(1,200)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	358	82
PRIOR YEAR DEFERRED TAX UNDER PROVISION	286	(460)
CURRENT TAX NOT RECOVERABLE	-	563
OTHER (FINAL TAX ON GOVERNMENT PAPER AT 15%)	785	497
INCOME TAX EXPENSE	**897**	**852**

Notes to the Financial Statements

10 CASH AND BALANCES WITH BANK OF UGANDA

	2009	2008
	SHS MILLIONS	SHS MILLIONS
CASH IN HAND	12,551	9,236
BALANCES WITH BANK OF UGANDA	10,045	12,774
TOTAL	**22,596**	**22,010**

11 AMOUNTS DUE FROM OTHER BANKS

	2009	2008
	SHS MILLIONS	SHS MILLIONS
ITEMS IN COURSE OF COLLECTION	13,596	14,159
PLACEMENTS	6,749	2,639
INCLUDED IN CASH AND CASH EQUIVALENTS (NOTE 28)	**20,345**	**16,798**

12 DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

	2009	2008
	SHS MILLIONS	SHS MILLIONS
CURRENCY SWAPS	14	-
TOTAL	**14**	**-**

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

13 LOANS AND ADVANCES TO CUSTOMERS

	2009	2008
	SHS MILLIONS	SHS MILLIONS
OVERDRAFTS	28,204	20,386
DISCOUNTED BILLS	65	64
LOANS	88,503	65,022
GROSS LOANS AND ADVANCES	**116,772**	**85,472**
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(798)	(513)
- COLLECTIVELY ASSESSED	(696)	(506)
TOTAL	**115,278**	**84,453**

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

	INDIVIDUALLY ASSESSED	COLLECTIVELY ASSESSED
	SHS MILLIONS	SHS MILLIONS
YEAR ENDED 31 DECEMBER 2008		
AT START OF YEAR	**424**	**370**
PROVISION FOR LOAN IMPAIRMENT	410	136
AMOUNTS RECOVERED DURING THE YEAR	(276)	-
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(45)	-
AT END OF YEAR	**513**	**506**
YEAR ENDED 31 DECEMBER 2009		
AT START OF YEAR	**513**	**506**
PROVISION FOR LOAN IMPAIRMENT	1,468	190
AMOUNTS RECOVERED DURING THE YEAR	(837)	-
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(346)	-
AT END OF YEAR	**798**	**696**

All loans are carried at their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2009 was Shs 1,294 million (2008: Shs 1,093 million).

14 INVESTMENT SECURITIES

	2009	2008
	SHS MILLIONS	SHS MILLIONS
INVESTMENT SECURITIES		
AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT		
- MATURING AFTER 90 DAYS OF THE DATE OF ACQUISITION	803	785
HELD-TO-MATURITY		
GOVERNMENT SECURITIES – AT AMORTISED COST		
- MATURING WITHIN 90 DAYS OF THE DATE OF ACQUISITION	-	1,384
- MATURING AFTER 90 DAYS OF THE DATE OF ACQUISITION	47,643	31,274
LISTED DEBT SECURITIES – AT AMORTISED COST	301	402
TOTAL	**47,944**	**33,060**

15 PROPERTY AND EQUIPMENT

	BUILDINGS & FREEHOLD LAND	FIXTURES, MOTOR VEHICLES	WORK FITTINGS &EQUIPMENT	IN PROGRESS (WIP)	TOTAL
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
AT 1 JANUARY 2008					
COST	3,421	238	4,437	136	8,232
ACCUMULATED DEPRECIATION	(110)	(163)	(2,080)	-	(2,353)
NET BOOK AMOUNT	**3,311**	**75**	**2,357**	**136**	**5,879**
YEAR ENDED 31 DECEMBER 2008					
OPENING NET BOOK AMOUNT	3,311	75	2,357	136	5,879
ADDITIONS	48	237	3,034	373	3,692
TRANSFERS	-	-	134	(134)	-
DISPOSALS	-	(28)	(3)	-	(31)
WRITE-OFFS	-	(142)	(936)	(2)	(1,080)
DEPRECIATION CHARGE	(63)	(38)	(813)	-	(914)
DEPRECIATION ON DISPOSALS	-	24	1	-	25
DEPRECIATION ON WRITE-OFFS	-	136	932	-	1,068
CLOSING NET BOOK AMOUNT	**3,296**	**264**	**4,706**	**373**	**8,639**
AT 31 DECEMBER 2008					
COST	3,470	305	6,666	373	10,814
ACCUMULATED DEPRECIATION	(174)	(41)	(1,960)	-	(2,175)
NET BOOK AMOUNT	**3,296**	**264**	**4,706**	**373**	**8,639**
YEAR ENDED 31 DECEMBER 2009					
OPENING NET BOOK AMOUNT	3,296	264	4,706	373	8,639
ADDITIONS	-	121	3,655	623	4,399
TRANSFERS	-	-	370	(370)	-
DISPOSALS	-	(40)	(85)	-	(125)
WRITE-OFFS	-	-	(5)	(3)	(8)
DEPRECIATION CHARGE	(72)	(89)	(1,333)	-	(1,494)
DEPRECIATION ON DISPOSALS	-	30	19	-	49
CLOSING NET BOOK AMOUNT	**3,224**	**286**	**7,327**	**623**	**11,460**
AT 31 DECEMBER 2009					
COST	3,470	386	10,601	623	15,080
ACCUMULATED DEPRECIATION	(246)	(100)	(3,274)	-	(3,620)
NET BOOK AMOUNT	**3,224**	**286**	**7,327**	**623**	**11,460**

16 INTANGIBLE ASSETS

COMPUTER SOFTWARE

	2009	2008
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	1,370	1,662
ADDITIONS	31	138
WRITE-OFFS	-	(691)
AMORTISATION	(380)	(411)
AMORTISATION ON WRITE-OFFS	-	672
AT END OF YEAR	1,021	1,370
AT 31 DECEMBER		
COST	1,911	1,880
ACCUMULATED AMORTISATION	(890)	(510)
NET BOOK AMOUNT	1,021	1,370

17 CURRENT INCOME TAX ASSETS

	2009	2008
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	359	1,081
INCOME STATEMENT CHARGE (NOTE 9)	(784)	(1,060)
PAYMENTS DURING THE YEAR	916	338
AT END OF YEAR	491	359

18 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2008: 30%). The movement on the deferred income tax account is as follows:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	70	278
INCOME STATEMENT CHARGE /(CREDIT) (NOTE 9)	113	(208)
AT END OF YEAR	183	70

The deferred income tax liability and deferred income tax charge in the profit and loss account are attributable to the following items:

	1 JANUARY 2009	(CREDITED)/(CHARGE) TO P/L	31 DECEMBER 2009
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
DEFERRED INCOME TAX LIABILITIES			
ACCELERATED TAX DEPRECIATION	669	219	888
TOTAL	669	219	888
DEFERRED INCOME TAX ASSETS			
TAX LOSSES CARRIED FORWARD	183	475	658
DEFERRED COMMISSION	174	(174)	-
PROVISIONS FOR LOAN IMPAIRMENT	152	(221)	(69)
OTHER PROVISIONS	90	26	116
TOTAL	599	174	705
NET DEFERRED INCOME TAX LIABILITIES/(ASSETS)	70	113	183

19 OTHER ASSETS

	2009	2008
	SHS MILLIONS	SHS MILLIONS
PREPAID OPERATING LEASE RENTALS	1,125	1,150
ACCOUNTS RECEIVABLE AND PREPAYMENTS	1,762	1,423
ITEMS IN TRANSIT	184	528
STATIONERY STOCKS	230	148
OTHER	61	92
TOTAL	3,362	3,341

20 CUSTOMER DEPOSITS

	2009	2008
	SHS MILLIONS	SHS MILLIONS
CURRENT AND DEMAND DEPOSITS	66,709	49,975
SAVINGS ACCOUNTS	33,607	23,807
FIXED DEPOSIT ACCOUNTS	57,492	47,694
MARGIN DEPOSITS	2,020	6,119
TOTAL	159,828	127,595

21 AMOUNTS DUE TO BANKS

	2009	2008
	SHS MILLIONS	SHS MILLIONS
ITEMS IN COURSE OF COLLECTION	482	672
TERM DEPOSITS	13,684	2,461
TOTAL	14,166	3,133

22 OTHER BORROWED FUNDS

	2009	2008
	SHS MILLIONS	SHS MILLIONS
EIB - UGANDA APEX PRIVATE SECTOR LOAN SCHEME	628	2,119
EIB - UGANDA MICROFINANCE SCHEME	-	30
EIB - PRIVATE ENTERPRISE FINANCE FACILITY	8,920	5,663
FMO - TERM FACILITY	4,909	3,195
PROPARCO – SUBORDINATED LOAN	5,805	5,852
TOTAL	20,262	16,859

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

The EIB – Uganda Microfinance Scheme relates to a line of credit granted to the Bank to on-lend to microfinance institutions in Uganda. These funds attracted a fixed rate of interest of 8.6% per annum in 2008.

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. These 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. These funds have a tenor of five years.

The PROPARCO subordinated loan is 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.

23 OTHER LIABILITIES

	2009	2008
	SHS MILLIONS	SHS MILLIONS
BILLS PAYABLE	533	357
CREDITORS	500	430
ACCRUALS	1,425	895
OTHER	5	4
TOTAL	**2,463**	**1,686**

24 SHARE CAPITAL

	NUMBER OF SHARES	ORDINARY SHARES	SHARE PREMIUM
	(THOUSANDS)	SHS MILLIONS	SHS MILLIONS
BALANCE AT 1 JANUARY 2008	4,542	4,542	757
ISSUE OF SHARES	1,736	1,736	2,981
BALANCE AT 31 DECEMBER 2008	**6,278**	**6,278**	**3,738**
BALANCE AT 1 JANUARY 2009	6,278	6,278	3,738
ISSUE OF SHARES	1,230	1,230	2,800
BALANCE AT 31 DECEMBER 2009	**7,508**	**7,508**	**6,538**

The total authorised number of ordinary shares is 10 million (2008: 10 million) with a par value of Shs 1,000 per share.

In 2009 the Board approved additional rights issues of 1,229,784 shares at a price of Shs 3,277. All the shares were paid up by year end.

25 REGULATORY RESERVES

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

	2009	2008
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	835	558
TRANSFERS FROM RETAINED EARNINGS	565	277
AT END OF YEAR	**1,400**	**835**

26 OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

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

CONTINGENT LIABILITIES

	2009	2008
	SHS MILLIONS	SHS MILLIONS
ACCEPTANCES AND LETTERS OF CREDIT	15,702	18,419
GUARANTEE AND PERFORMANCE BONDS	21,071	19,580
TOTAL	**36,773**	**37,999**

NATURE OF CONTINGENT LIABILITIES

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

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

OTHER COMMITMENTS

	2009	2008
	SHS MILLIONS	SHS MILLIONS
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	7,777	5,593

FINANCIAL DERIVATIVES

The Central Bank requires disclosure of the underlying amounts of the derivatives indicated in note 12 above. These amounts are detailed below:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
UNDERLYING FOREIGN CURRENCY SWAP ASSETS	757	-
UNDERLYING FOREIGN CURRENCY SWAP LIABILITIES	(771)	-
TOTAL	**(14)**	**-**

NATURE OF COMMITMENTS

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

LEGAL PROCEEDINGS

There were a number of legal proceedings outstanding against the Bank at 31 December 2009. No provision has been made as professional advice indicates that it is unlikely that any additional significant loss will crystallise.

27 ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE CASH FLOW STATEMENT

	2009	2008
	SHS MILLIONS	SHS MILLIONS
CASH AND BALANCES WITH BANK OF UGANDA (NOTE 10)	22,596	22,010
LESS: CASH RESERVE REQUIREMENT (SEE BELOW)	(16,589)	(12,727)
GOVERNMENT SECURITIES (NOTE 14)	-	1,384
PLACEMENTS WITH OTHER BANKS (NOTE 11)	20,345	16,798
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 29)	437	2,341
TOTAL	**26,789**	**29,806**

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

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

28 BANK SHAREHOLDING

The Bank shareholders are comprised of the following:

	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA – KENYA	50.0%	KENYA
AUREOS EAST AFRICA FUND LLC	21.9%	MAURITIUS
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	17.5%	THE NETHERLANDS
CENTRAL HOLDINGS UGANDA LTD.	9.4%	UGANDA
AFRICAN FINANCIAL HOLDING (AFH) – INDIAN OCEAN	1.2%	MAURITIUS
TOTAL	**100%**	

29 RELATED PARTY TRANSACTIONS

The shareholders of the bank are disclosed in note 28. The ultimate holding company of the Bank is BANK OF AFRICA GROUP.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. Related companies are those which are owned by directors and shareholders of the Bank. The volumes of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
AMOUNTS DUE FROM GROUP COMPANIES	437	2,341
INTEREST INCOME EARNED ON THE ABOVE	43	56
AMOUNTS DUE TO GROUP COMPANIES	623	3,240
INTEREST EXPENSE INCURRED ON THE ABOVE	12	42

Advances to customers at 31 December 2009 include loans to Directors, loans to companies controlled by Directors or their families, and loans to employees as follows:

	2009	2008
	SHS MILLIONS	SHS MILLIONS
LOANS TO DIRECTORS		
AT START OF YEAR	**251**	**334**
ADVANCED DURING THE YEAR	225	251
REPAID DURING THE YEAR	(251)	(334)
AT END OF YEAR	**225**	**251**

At 31 December 2009 advances to employees amounted to Shs 1,975 million (2008: Shs 1,940 million).

All the above loans were given on interest rates ranging between 5% and 19% (2008: 3% and 21%) and were all performing as at 31 December 2009 and 2008.

	2009	2008
	SHS MILLIONS	SHS MILLIONS
INTEREST INCOME EARNED	**172**	**138**

No provisions have been recognised in respect of loans given to related parties (2008: nil).

DEPOSITS BY DIRECTORS	2009	2008
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	**666**	**37**
RECEIVED DURING THE YEAR	57	666
REPAID DURING THE YEAR	(666)	(37)
TRANSFERS TO THIRD PARTY DEPOSITS	-	
AT END OF YEAR	**57**	**666**
INTEREST EXPENSE INCURRED	**-**	**2**

KEY MANAGEMENT COMPENSATION	2009	2008
	SHS MILLIONS	SHS MILLIONS
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	1,360	1,051
OTHER LONG-TERM BENEFITS	67	25
TOTAL	**1,427**	**1,076**

DIRECTORS' REMUNERATION	2009	2008
	SHS MILLIONS	SHS MILLIONS
FEES FOR SERVICES AS A DIRECTOR	163	51
OTHER EMOLUMENTS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	812	568
TOTAL	**975**	**619**

30 DIVIDENDS

The proposed dividend for the year is Shs 221 per share amounting to Shs 1,661 million (2008: dividend per share of Shs 275 amounting to Shs 1,726 million). During the year, final dividends of Shs 1,726 million were paid in respect of the year ended 31 December 2008. No interim dividends were paid in respect of the year ended 31 December 2009.

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

31 EARNINGS PER SHARE

	2009	2008
	SHS MILLIONS	SHS MILLIONS
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (SHS MILLIONS)	3,321	3,714
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES IN ISSUE (THOUSANDS)	6,893	5,337
BASIC EARNINGS PER SHARE (EXPRESSED IN SHS PER SHARE)	**481**	**696**

There were no potentially dilutive shares outstanding at 31 December 2009 (2008: Nil)

32 LOSSES ON STAFF LOANS MEASURED AT FAIR VALUE ON INITIAL RECOGNITION

During the year, some staff loans were granted at interest rates below market rates. Application of IAS 39 resulted into initial recognition at fair value and measurement at amortised cost using the effective interest method. In measurement, the Bank used contractual cash flows over the full contractual term of the staff loans with fair values based on market prices of other similar loans. The difference between the fair value and issue amount has been recognized as an expense in the statement of comprehensive income.

The effect on the financial statements is summarised below:

	SHS MILLIONS
CARRYING AMOUNT	1,945
NET LOSS ON FAIR VALUATION	(356)
BALANCE AT 31 DECEMBER 2009	**1,589**

33 FOREIGN EXCHANGE INCOME

	2009	2008
	SHS MILLIONS	SHS MILLIONS
REALISED FOREIGN EXCHANGE INCOME	1,877	1,324
UNREALISED FOREIGN EXCHANGE INCOME	425	549
TOTAL	**2,302**	**1,873**

Personal notes

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