UGANDA

FINANCIAL STATEMENTS 2017

BANK OF AFRICA

Groupe BMCE BANK

Table of contents

Opening date: octobre 2006

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

Capital as at 31/12/2017

Uganda Shillings (UGX) 46.775 billion

Board of Directors as at 31/12/2017

John CARRUTHERS, Chairman
Amine BOUABID
Abdelkabir BENNANI
Gertrude K. BYARUHANGA
Arthur ISIKO
Mohan Musisi KIWANUKA
Bernard R. MAGULU
C.P.J.J. represented by Kathleen GOENSE

Auditors

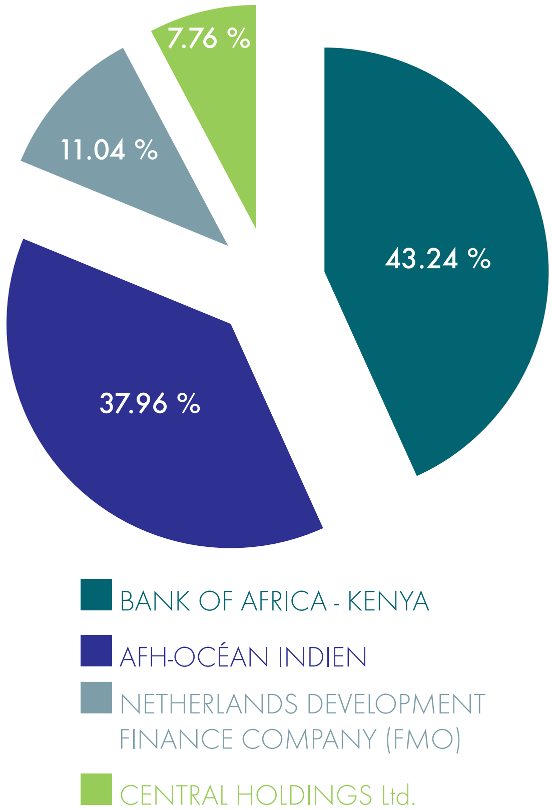
PRICEWATERHOUSECOOPERS

Registered office

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

boa@boauganda.com
www.boauganda.com

Principal shareholders as at 31/12/2017



Financial analysis

Uganda's economy at an estimate 3.77% real GDP growth outperformed the 2016's 2.5%, albeit lower than the target growth of 5.5%. This weak economic growth was on account of prolonged droughts at the beginning of year, slowdown in public investment, regional conflicts that affected cross-border trade (mainly South Sudan), and subdued credit growth exacerbated by higher than average delinquency rates which led to tighter underwriting standards.

Inflation rates declined in 2017 to record two-year lows owing to weather patterns improvements, and relative stability of the UGX to the USD. As such, the Central Bank, to boost private sector credit and economic growth, adopted an expansionary monetary policy reflected in reduction of the Central Bank Rate. In turn, Government paper yields shed about 600 basis points during the year. Inflation is still expected to remain subdued.

Key figures 2017 (in UGX million)

Activity	2016	2017	Variation
Deposits	480,246	544,320	13.3 %
Loans	293,281	320,375	9.2 %
Number of branches	35	35	0.0 %
Structure			
Total assets	688,560	756,366	9.8 %
Shareholders' equity	96,530	107,131	11.0 %
Number of employees	443	421	-5.0 %
Income			
Net operating income	78,668	85,473	8.1 %
Operating expenses (includind depreciation and amortization)	60,042	61,140	1.8 %
Gross operating profit	18,626	23,897	28.3 %
Cost of risk in value (*)	2,868	3,455	20.5 %
Net Income	12,143	16,673	37.3 %
Operating ratio	76.3 %	71.9 %	
Cost of risk	1.0 %	1.1 %	
Return on Assets (ROA)	1.8 %	2.3 %	
Return on Equity (ROE)	12.6 %	16.4 %	
Capital adequacy ratio			
Tier 1	69,212	69,063	
Tier 2	3,001	3,275	
Risk Weighted Asset (RWA)	412,237	465,742	
Tier 1 + Tier 2 / RWA	17.5 %	15.5 %	

(*) Including general provision

+ 9.8 %
Total assets

Deposits
480,246 UGX million
2016
544,320 UGX million
2017

Loans
+ 9.2 %

Net operating income
+ 8.1 %

The shilling was relatively stable with an annual depreciation of less than 1% against USD but recorded a 13% depreciation against EUR. These pressures are expected to continue on account of the increasing trade deficit. The year ahead promises better GDP growth prospects at over 5% which may result into higher demand for credit largely driven by infrastructure investments, (mainly in the energy sector) better weather patterns in the agricultural sector, and increasing foreign demand.

The Bank **recorded a 9.8% growth in total assets fueled by a 9.2% pick-up in loans and advances**, which make up 42.4% of the Bank's total assets. This growth was funded through customer deposits, which grew by 13.4%.

Net interest income recorded a 8.1% growth amidst a declining yields environment and sluggish credit book growth. On the other hand, **non-interest income recorded a 15.7% growth** driven by recovery in trading income, tripling the growth in net interest income. Operating expenses were kept in check recording insignificant growth, supported by deliberate cost saving measures during the year.

Consequently, a **substantial growth** (37%) in earnings was recorded. The Bank's interest shall remain in SME and Retail clientele to drive credit growth and digital transformation to deliver improved services and solutions to the customers.

Corporate information

For the year ended 31 December 2017

Registered office

The address of the registered office is:
BANK OF AFRICA - UGANDA LIMITED
Plot 45, Jinja Road
P. O. Box 2750
Kampala, Uganda.

Company Secretary

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

Auditors

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

Branches

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MASAKA BRANCH
Plot 7, Birch Avenue
Masaka

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

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

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

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

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

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

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

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

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

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

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

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

Directors' Report

For the year ended 31 December 2017

The directors submit their report together with the audited financial statements for the year ended 31 December 2017, which disclose the state of affairs of BANK OF AFRICA - UGANDA Limited (BOA-UGANDA). The financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act of Uganda (CAP 110) and the Ugandan Financial Institutions Act, 2004 (as amended in 2016).

Principal activities

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

Result and dividend

The Bank's profit for the year ended 31 December 2017 was Shs 16,673 million (2016: profit of Shs 12,143 million) as shown in the statement of comprehensive income (Page 14).

The directors recommend that a dividend of Shs 178.24 per ordinary share be paid for the year ended

31 December 2017 (2016: 129.81). The total dividends for the year will be Shs 8,337 million (2016: Shs 6,072 million).

Directors

Mr. John CARRUTHERS	- Chairman
Mr. Amine BOUABID	- Non-Executive Director
Mr. Abdelkabir BENNANI	- Non-Executive Director
Mr. Mohan M. KIWANUKA	- Non-Executive Director
Mr. Vincent de BROUWER	- Non-Executive Director (Resigned 15 November 2017)
Ms. Kathleen GOENSE	- Non-Executive Director (Appointed 13 June 2017)
Ms. Gertrude K. BYARUHANGA	- Non-Executive Director
Mr. Arthur ISIKO	- Managing Director
Mr. Bernard R. MAGULU	- Executive Director

Corporate governance

The Bank has established a tradition of best practices in corporate governance. The corporate governance framework is based on an effective experienced board, separation of the board's supervisory role from the executive management and constitution of board committees generally comprising a majority of non-executive directors and chaired by a non-executive independent director to oversee critical areas.

Board of Direcors

The Bank has a broad-based board of directors. As at 31 December 2017, the Board of Directors consisted of 8 members. The board functions as a full board and through various committees constituted to oversee specific operational areas. The board has constituted five committees. These are the Risk Management

Committee, Asset and Liability Management Committee, Compensation Committee, Audit Committee, and the Credit Committee. All board committees are constituted and chaired by non-executive directors. The membership on these committees at 31 December 2017 was as follows:

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

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

Auditors

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

Approval of the financial statements

The Financial Statements were approved at the meeting of the directors held on held on 15 February 2018.

By order of the Board

REHMAH NABUNYA
SECRETARY
15 March 2018

Statement of Directors' Responsibilities

The Bank's directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31 December 2017, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, the Companies Act of Uganda, and the Financial Institutions Act, 2004 (as amended in 2016) and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these 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. They are also responsible for safe guarding the assets of the company.

Under the Companies Act of Uganda, the directors are required to prepare financial statements for each 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 the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records that disclose with reasonable accuracy the financial position of the company.

The directors accept responsibility for the financial statements set out on pages 10 to 62 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the reporting requirements of the Financial Institutions Act 2004 (as amended in 2016) and the Companies Act of Uganda. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the profit and cash flows for the year ended 31 December 2017.

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 adequate systems of internal financial control.

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

Approval of the financial statements

The financial statements, as indicated above, were approved by the board of directors on 15 February 2018 and were signed on its behalf by:

Mr. Mohan M. KIWANUKA Director	Mr. Arthur ISIKO Director	Mr. John CARRUTHERS Director

15 March 2018

Report of the Independent Auditors to the Members of BANK OF AFRICA - UGANDA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BANK OF AFRICA – UGANDA Limited, which comprise the statement of financial position as at 31 December 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies set out on pages 17 to 58.

In our opinion, the financial statements give a true and fair view of the financial position of BANK OF AFRICA - UGANDA Limited as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act of Uganda and the Financial Institutions Act, 2004 (as amended in 2016).

Basis for opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements taken as a whole, and in forming our opinion thereon, and the report below is not intended to constitute separate opinions on these matters.

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

Impairment of loans and advances to customers.

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

- Note 17
- Note 2: (accounting policies note 2 (b) – summary of significant accounting policies

The Key Audit Matter	How the matter was addressed in our audit
A key component of the bank's business is advancing loans to customers. Impairment provisions on these loans and advances represent the directors' best estimate of the non-recoverable portion of Loans and Advances. Impairments are calculated on individual and collective basis on non-performance loans. The Bank has put in place financial models to determine the individual and collective impairment for loans and advances. The models are complex and require high levels of judgment in determining key inputs which mainly include; estimated future cash flows, the outcome period, the emergence period and the historical loan loss ratios. Because of the significance of these judgments on the loan impairment balance and the size of loans and advances in the financial statements, the impairment of loans and advances was considered a key audit matter.	Our audit procedures in this area included among others: For both individual and collective portfolios: - We obtained an understanding of the credit impairment process of the Bank and tested the design and operating effectiveness of the key controls. These included testing: • System-based and manual controls over the timely recognition of impaired loans and advances. • Controls over the impairment calculation models including data inputs. • Controls over collateral valuation estimates. For individual portfolios: - We tested a sample of loans and advances including those that had not been identified by management as potentially impaired to determine whether impairment events had occurred and to assess whether impairments had been identified in a timely manner. - We examined the impairment model to ascertain whether all loans were considered for individual impairment especially those in the sectors of construction, agriculture, real estate, wholesale and retail. - We challenged management assumptions on projected cash flows when assessing individual impairment with reference to current economic performance, assumptions most commonly used in the client specific industry, and comparison with external evidence or historical financial trends. - We agreed the Forced Sale Values applied to the collateral to the valuations reports issued by the valuation firms. For collective portfolios: - We recomputed the historical loss ratios to verify the ratios used in the impairment model. - We compared the historical loss ratios to industry averages to assess their reasonableness.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the corporate information, in the Director's Report and the Statement of Directors' Responsibilities, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and the Companies Act of Uganda, the Financial Institutions Act, 2004 (as amended in 2016) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

iii) The Bank's statements of financial position and comprehensive income are in agreement with the books of account.

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

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

Date: 24 April 2018

Statement of Comprehensive Income

	NOTES	2017 SHS M	2016 SHS M
INTEREST INCOME	5	72,898	70,988
INTEREST EXPENSE	6	(12,281)	(13,427)
NET INTEREST INCOME		60,617	57,561
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	17 (B)	(3,455)	(2,868)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		57,162	54,693
FEE AND COMMISSION INCOME	7	22,390	25,426
FEE AND COMMISSION EXPENSE	8	(5,333)	(8,025)
NET FOREIGN EXCHANGE GAINS	9	6,116	1,129
OTHER OPERATING INCOME	10	1,683	2,577
OPERATING EXPENSES	11	(61,140)	(60,042)
PROFIT BEFORE INCOME TAX		20,878	15,758
INCOME TAX EXPENSE	13	(4,205)	(3,615)
PROFIT FOR THE YEAR		16,673	12,143
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		16,673	12,143
EARNINGS PER SHARE - BASIC AND DILUTED (USHS PER SHARE)	30	356.45	259.60

Statement of Financial Position

	NOTES	2017 SHS M	2016 SHS M
ASSETS			
CASH AND BALANCES WITH BANK OF UGANDA	14	128,548	76,389
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	15	63,291	59,519
DEPOSITS DUE FROM GROUP COMPANIES	32 (A)	26,184	28,186
DERIVATIVES HELD FOR RISK MANAGEMENT	16 (B)	37	123
GOVERNMENT SECURITIES	16 (A)	163,405	183,454
LOANS AND ADVANCES TO CUSTOMERS	17 (A)	320,375	293,281
OTHER ASSETS	18	12,749	11,381
PROPERTY AND EQUIPMENT	19	10,572	11,931
OPERATING LEASE PREPAYMENTS	20	3,003	3,050
INTANGIBLE ASSETS	21	9,781	3,955
DEFERRED INCOME TAX ASSET	26	18,421	17,291
TOTAL ASSETS		756,366	688,560
LIABILITIES			
CUSTOMER DEPOSITS	22	544,320	480,246
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	23	19,618	32,140
AMOUNTS DUE TO GROUP COMPANIES	32 (B)	62,989	53,384
OTHER BORROWINGS	24	1,225	7,826
CURRENT INCOME TAX LIABILITIES	13 (B)	1,133	2,064
OTHER LIABILITIES	25	19,950	16,370
TOTAL LIABILITIES		649,235	592,030
EQUITY			
SHARE CAPITAL	27	46,775	46,775
SHARE PREMIUM	27	23,614	23,614
PROPOSED DIVIDENDS	31	8,337	6,072
RETAINED EARNINGS		28,405	20,069
TOTAL EQUITY		107,131	96,530
TOTAL EQUITY AND LIABILITIES		756,366	688,560

The financial statements on pages 17 to 58 were approved for issue by the Board of Directors on 15 February 2018 and signed on its behalf by:

Mr. John CARRUTHERS
Chairman

Mr. Arthur ISIKO
Director

Mr. Mohan M. KIWANUKA
Director

Ms. Rehmah NABUNYA
Secretary

Statement of Changes in Equity

	NOTE	SHARE CAPITAL SHS M	SHARE PREMIUM SHS M	REGULATORY RESERVE SHS M	PROPOSED DIVIDENDS SHS M	RETAINED EARNINGS SHS M	CAPITAL SHS M
YEAR ENDED 31 DECEMBER 2016							
AT 1 JANUARY 2016		46,775	23,614	-	-	13,998	84,387
COMPREHENSIVE INCOME:							
PROFIT FOR THE YEAR		-	-	-	-	12,143	12,143
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-	-	12,143	12,143
TRANSACTIONS WITH OWNERS:							
PROPOSED DIVIDENDS		-	-	-	6,072	(6,072)	-
AT END OF YEAR	27	46,775	23,614	-	6,072	20,069	96,530
YEAR ENDED 31 DECEMBER 2017							
AT 1 JANUARY 2017	27	46,775	23,614	-	6,072	20,069	96,530
COMPREHENSIVE INCOME:							
PROFIT FOR THE YEAR		-	-	-	-	16,673	16,673
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-	-	16,673	16,673
TRANSACTIONS WITH OWNERS:							
PROPOSED DIVIDENDS	31	-	-	-	8,337	(8,337)	-
DIVIDENDS PAID		-	-	-	(6,072)	-	(6,072)
AT END OF YEAR	27	46,775	23,614	-	8,337	28,405	107,131

Statement of Cash Flows

	NOTES	2017 SHS M	2016 SHS M
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		85,419	56,970
INTEREST PAYMENTS		(12,597)	(13,043)
NET FEE AND COMMISSION RECEIPTS		17,057	17,401
OTHER INCOME RECEIVED		7,628	3,251
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		679	2,176
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(58,245)	(59,125)
INCOME TAX PAID	13	(6,266)	(3,332)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		33,675	4,298
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(30,917)	(33,499)
- CASH RESERVE REQUIREMENT		(2,305)	(1,510)
- OTHER ASSETS		(1,282	(713)
- CUSTOMER DEPOSITS		64,285	46,910
- DEPOSITS DUE TO OTHER BANKS		(12,522)	(5,717)
- AMOUNTS DUE TO GROUP COMPANIES		9,623	14,697
- OTHER LIABILITIES		5,723	9,123
- GOVERNMENT SECURITIES		6,514	(88,089)
NET CASH GENERATED/ (UTILIZED) FROM OPERATING ACTIVITIES		72,794	(54,500)
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	19	(1,679)	(1,789)
PURCHASE OF INTANGIBLE ASSETS	21	(7,143)	(1,112)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		237	187
NET CASH UTILIZED IN INVESTING ACTIVITIES		(8,585)	(2,714)
CASH FLOWS FROM FINANCING ACTIVITIES			
DIVIDENDS PAID		(6,072)	-
REPAYMENT OF BORROWED FUNDS		(6,513	(15,423)
NET CASH UTILIZED IN FINANCING ACTIVITIES		(12,585)	(15,423)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		51,624	(72,637)
CASH AND CASH EQUIVALENTS AT START OF YEAR		145,249	217,886
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	196,873	145,249

Notes to the Financial Statements

For the year ended 31 december 2017

1. Reporting Entity

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

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

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

2. Principal Accounting Policies

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

2.1. Basis of preparation

The Financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS).

2.2. Statement of Compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of Uganda Cap (110) and Financial Institutions act, 2004 as (amended 2016). The bank presents its Statement of Financial Position broadly in order of liquidity.

2.3. Functional and presentation currency

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

2.4. Use of judgments and estimates

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

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

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

(a) Deferred income tax asset (Note 26):

In 2017, the Bank recognised a deferred tax asset of Shs 18,421 million in respect of accumulated tax losses based on management's projections that sufficient taxable profits will be generated in future years against which the deferred tax asset will be utilised. The deferred tax has been maintained in the balance sheet with an assumption that the bank will remain profitable in future years based on the projected increase in revenue at a faster rate than the increase in costs.

(b) Impairment losses on loans and advances (Note 17b):

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, 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 Bank. As at 31 December 2017, an IAS 39 provision was computed for unidentified and identified impairment. Impairment loss was measured on the basis of the present value of estimated future cash flows discounted at the original effective interest rate. Future expected cash flows were determined based on the value of the collateral held for which the bank's interest was registered.

For all loans not identified as individually impaired and for those identified as being impaired but classified as insignificant an impairment provision was computed using the existing 4 year Bank historical loss experience to arrive at the credit loss ratio of 1.0%. The loss ratio was adjusted by the (a) the loan business segment (Retail, SME or Corporate), (b) the relative loan tenors and (c) specifically for Corporate loans, the corporate structure, to determine the ability of such borrowers to access alternative cash flows hence extending the emergence period to the maximum 12 months. The related criteria in accordance to the Financial Institutions Act has been illustrated under the Summary of significant accounting policies, Impairment of financial assets (2.6 C (i)).

(c) Fair value of financial instruments (Note 16b):

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(d) Held-to-maturity financial assets (Note 16a)

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity 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.

2.5. Adoption of new and revised standards

(i) New and amended standards adopted by the Bank

The following standards have been adopted by the Bank for the first time for the financial year beginning on or after 1 January 2017: The adoption of these new standards has not resulted in material changes to the banks accounting policies.

New amendments or interpretation effective for annual periods beginning on or after 1 January 2017 are summarized below:

New amendments or interpretation	Effective date
• Disclosure Initiative (Amendments to IAS 7)	
• Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12	1 January 2017
• Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)	

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017

At the date of authorization of financial statements of BANK OF AFRICA - UGANDA Limited for the year ended 31 December 2017, the following Standard and Interpretations were in issue but not yet effective:

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments	1 January 2018
• Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
• Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
• Transfers of Investment property (Amendments to IAS 40)	1 January 2018
• IFRIC 22 Foreign Currency Transactions and Advance Considerations	1 January 2018
• IFRS 16 Leases	1 January 2019
• IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
• Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
• Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)	1 January 2019
• IFRS 17 Insurance contracts	1 January 2022
• IFRS 15 Revenue from Contracts with Customers	1 January 2018

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

IAS 40, IFRS 2, IFRS 17, IAS 28, are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

IFRS 9 Financial Instruments

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application permitted if, and only if, it is possible without the use of hindsight. The bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes. The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Amendments to IFRS 9 will not be early adopted. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

The new classification and measurement and impairment requirements will be applied by adjusting our Balance Sheet on 1 January 2018, the date of initial application, with no restatement of comparative period financial information.

Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction to retained earnings as at 1 January 2018 of approximately Shs 2,720 Million before taxes. The impact is primarily attributable to increases in:

- the allowance for credit losses on Loans and advances of Shs 1,427 Million.
- the allowance for credit losses on off balance sheet items of Shs 1,293 Million.

Further IFRS 9 changes based on the current estimates are also summarised in the table below.

	IAS 39	IFRS 9
Loan Impairment Provisions	6,407	9,126
Risk Weighted Assets	465,742	463,732
Core capital ratio	14.8%	14.3%
Total capital ratio	15.5%	15.0%

The above assessment is preliminary because further calibration of the impairment model is ongoing.

Classification and measurement

IFRS 9 introduces an approach to the classification of financial assets that reflects the business model. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

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

The combined application of the contractual cash flow characteristics and business model tests as at 1 January 2018 is expected to have no significant impact when compared to our classification under IAS 39 (or "result in certain differences in the classification of financial assets when compared to our classification under IAS 39".

Impairment

Impairment Overall Comparison of the New Impairment Model and the Current Model

IFRS 9 introduces a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) rather than incurred losses as applied under the current standard. Currently, impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified. Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model.

Under the current standard, incurred losses are measured by incorporating reasonable and supportable information about past events and current conditions. Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses. Forward-looking macroeconomic factors such as unemployment rates, inflation rates, interest rates, exchange rates, domestic borrowing, credit to private sector and gross domestic product will be incorporated into the risk parameters. Estimating forward-looking information will require significant judgment and must be consistent with the forward-looking information used by the Bank for other purposes, such as forecasting and budgeting.

Scope

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework were considered in determining the scope of our application of the new expected credit loss impairment model.

Measurement of Expected Credit Losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs will be based primarily on the product of the instrument’s probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase

in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Central Bank of Uganda and bank's policy on curing of loans.

- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

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

Assessment of Significant Increase in Credit Risk

The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to Stage 2.

Definition of Default

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

Hedge Accounting

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

IFRS 15: Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Management has assessed the effects of applying the new standard on the Bank's financial statements and has identified the following area that will be affected:

Presentation of contract assets and contract liabilities in the statement of financial position – IFRS 15 requires separate presentation of contract assets and contract liabilities in the statement of financial position. This will result in some reclassifications as of 1 January 2018 in relation to loan related contracts and contract liabilities in relation to expected volume discounts, rights to return and any customer loyalty programmes.

The application of IFRS 15 may further result in the identification of separate performance obligations in relation to loan related contracts which could affect the timing of the recognition of revenue going forward.

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 includes a single model for lessees which will result in almost all leases being included in the Statement of Financial Position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors.

The standard will affect primarily the accounting for the Bank's operating leases. As at the reporting date, the Bank had non-cancellable operating lease commitments of Shs 9,300 Million. The Bank estimates that approximately 10% of these relate to payments for short term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

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

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

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

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

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

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

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

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

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

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

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

2.6. Summary of significant accounting policies

(a) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

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

(b) Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and advances; held-to-maturity financial assets and available-for-sale financial assets. Management determines the 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 as held for trading 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 or loss when:

- doing so significantly reduces or eliminates a measurement inconsistency; or
- they form part of a 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 and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those classified as held for trading and those that the Bank on initial recognition designates as at fair value through profit and loss;

- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Held-to maturity financial assets

Held-to-maturity financial 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 financial assets

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

Recognition and measurement:

Regular 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 statement of comprehensive income.

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.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as ''gains and losses from investment securities''.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

(c) 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 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:

i) significant financial difficulty of the issuer or obligor;

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

iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

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

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

vi) 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:

- adverse changes in the payment status of borrowers in the portfolio; and
- 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 12 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 that 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.

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 statement of comprehensive income. 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.

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 and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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. Impairment charges relating to loans and advances to customers are classified in loan impairment charges whilst impairment charges relating to investment securities are classified in 'Net gains/ (losses) on investment securities'. Subsequent recoveries of amounts previously written off increase the amount of other income in the statement of comprehensive income.

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 statement of comprehensive income.

In addition to the measurement of the impairment losses on loans and advances in accordance with IFRS as set out above, the Bank is required by the Financial Institutions Act to estimate losses on loans and advances as follows:

1) Specific provision for the loans and advances considered non performing (impaired) based on the criteria, and classification of such loans and advances established by the Bank of Uganda, as follows:

   a) Substandard loans with arrears period from 90 to 179 days – 20% provision

   b) Doubtful loans and advances with arrears period from 180 to 364 days – 50% provision; and

   c) Loss with arrears period exceeding 364 days – 100% provision

2) General provision of 1% of credit facilities less specific provisions and suspended interest.

In the event that provisions computed in accordance with the Financial Institutions Act exceed provisions determined in accordance with IFRS, the excess is accounted for as an appropriation of retained earnings. Otherwise no further accounting entries are made.

(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 Statement of comprehensive income.

Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. 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 statement of comprehensive income.

(d) Derivative financial instruments

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

(e) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' respectively in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(f) Fees and commission

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

(g) Sale and repurchase agreements

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

(h) Offsetting financial instruments

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

(i) Property and equipment

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

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

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

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

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

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

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in "other income" in the statement of comprehensive income.

(j) Intangible assets

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

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

Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

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

(k) Income tax

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

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the balance sheet date.

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

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

(l) Cash and cash equivalents

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

(m) Employee benefits

(i) Retirement benefit obligations:

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

The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Bank and the employees.

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

(ii) Other entitlements

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

(n) Customer deposits

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

(o) Borrowings

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

(p) Share capital

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

(q) Dividends

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

(r) Accounting for leases

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

(i) With the Bank as lessee:

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

(ii) With the Bank as lessor:

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

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

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

(s) Acceptances and letters of credit

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

(t) Grants

Grants include assistance offered by government, government agencies and similar bodies whether local, national, or international in the form of transfers of resources in return for past, of future compliance with certain conditions relating to the operation of the Bank. Grants related to assets are those whose primary condition is that the Bank should purchase long term assets.

Grants are recognised when there is reasonable assurance that the Bank will comply with the conditions attached to the grant and that the grant will be received.

Grants awarded towards the purchase of assets are netted off against the total purchase price in arriving at the carrying value of the asset. The grant is then recognised as income through profit or loss over the life of the asset by way of a reduction in the depreciation charge of the asset.

3. Financial risk management

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. These policies are approved by the Board of Directors.

The Treasury department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk.

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

(i) Credit risk measurement

Loans and advances (including commitments and guarantees):

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

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

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

Bank's rating	Description of the grade
1	Standard and current
2	Watch
3	Substandard
4	Doubtful
5	Loss

(ii) Risk limit control and mitigation policies:

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are reviewed quarterly by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Some other specific control and mitigation measures are outlined below:

(b) Collateral

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

- Mortgages over residential properties.
- Charges over communal and/or business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as fixed deposits, debt securities and equities.

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

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

(c) Credit related commitments

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

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

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

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

	2017 SHS M	2016 SHS M
BALANCES WITH THE CENTRAL BANK (NOTE 14)	54,175	30,623
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS (NOTE 15)	63,291	59,519
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 32 (A))	26,184	28,186
LOANS AND ADVANCES TO CUSTOMERS (NOTE 17)	320,375	293,281
GOVERNMENT SECURITIES (NOTE 16 (A))	163,405	183,454
OTHER ASSETS (NOTE 18)	8,294	6,575
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS: (NOTE 33)		
- TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	32,155	16,694
- PERFORMANCE BONDS AND STANDBYS	85,988	69,350
- COMMITMENTS TO LEND	14,485	25,663
TOTAL EXPOSURE	768,352	713,345

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 42% of the total maximum exposure is derived from loans and advances to banks and customers (2016: 41%); 22% represents investments in debt securities (2016: 26%).

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

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

- the Bank exercises stringent controls over the granting of new loans
- 81% of the loans and advances portfolio are neither past due nor impaired
- 98% of the loans and advances portfolio are not impaired; and
- 56% of the loans and advances portfolio are backed by collateral

	2017 SHS M	2016 SHS M
LOANS AND ADVANCES		
NEITHER PAST DUE NOR IMPAIRED	266,106	211,619
PAST DUE BUT NOT IMPAIRED	53,468	84,542
IMPAIRED	7,208	2,611
GROSS	326,782	298,772
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 17 (A))	(6,407)	(5,491)
NET AMOUNT	320,375	293,281

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:

	2017 SHS M	2016 SHS M
STANDARD	266,106	211,619

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 after taking into account costs of realising security and the effect of discounting. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2017 SHS M	2016 SHS M
PAST DUE UP TO 30 DAYS	47,576	65,990
PAST DUE 31 – 60 DAYS	4,868	4,385
PAST DUE 61 – 90 DAYS	564	435
PAST DUE OVER 90 DAYS	460	13,732
TOTAL	53,468	84,542

Individually impaired:

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

	2017 SHS M	2016 SHS M
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES		
- CORPORATE	3,457	16
- SME	1,722	733
- CONSUMER	2,029	1,862
	7,208	2,611
FAIR VALUE OF COLLATERAL HELD	1,245	1,217

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans. Renegotiated loans totalled Shs 11,706 million (2016: Shs 5,494 million).

Repossessed collateral

During 2017, the Bank did not re-possess any collateral held as security. The Bank's policy is to dispose of repossessed properties as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

(d) Liquidity risk

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

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

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

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

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

AT 31 DECEMBER 2017	CARRYING AMOUNT SHS M	NOMINAL INFLOW/ OUTFLOW SHS M	UP TO 1 MONTH SHS M	1-3 MONTHS SHS M	3-13 MONTHS SHS M	1-5 YEARS SHS M	OVER 5 YEARS SHS M
LIABILITIES							
CUSTOMER DEPOSITS	544,320	553,362	511,135	8,644	33,583	-	-
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	19,618	22,367	22,367	-	-	-	-
AMOUNTS DUE TO GROUP COMPANIES	62,989	62,986	26,025	36,961	-	-	-
OTHER BORROWED FUNDS	1,226	1,265	73	170	124	898	-
OTHER LIABILITIES	21,082	21,082	21,082	-	-	-	-
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	649,235	661,062	580,682	45,775	33,707	898	-
ASSETS							
CASH AND BANK BALANCES WITH CENTRAL BANK	128,548	160,274	139,012	21,262	-	-	-
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	63,291	66,925	66,925	-	-	-	-
AMOUNTS DUE FROM GROUP COMPANIES	26,184	26,185	26,185	-	-	-	-
DERIVATIVE ASSETS	37	37	37	-	-	-	-
LOANS AND ADVANCES TO CUSTOMERS	320,375	352,593	83,018	80,834	33,982	111,465	43,294
GOVERNMENT SECURITIES	163,405	187,232	292	51,804	127,745	7,391	-
PROPERTY AND EQUIPMENT	10,572	10,572	-	6	392	4,189	5,985
INTANGIBLE ASSETS	9,781	9,781	-	1	386	2,395	6,999
OTHER ASSETS	34,173	34,173	31,170	-	-	-	3,003
TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	32,155	36,232	36,232	-	-	-	-
PERFORMANCE BONDS AND STANDBYS	85,988	95,157	-	-	-	95,157	-
COMMITMENTS TO LEND	14,485	15,492	15,492	-	-	-	-
TOTAL ASSETS (EXPECTED MATURITY DATES)	888,994	994,653	398,363	153,907	162,505	220,597	59,281
ON-BALANCE SHEET MISMATCH	239,759	333,591	(182,319)	108,132	128,798	219,699	59,281
NET OFF-BALANCE SHEET MISMATCH	(124,924)	(124,924)	(27,879)	(27,552)	(45,414)	(24,079)	-
NET LIQUIDITY POSITION	364,683	458,515	(154,440	135,684	174,212	243,778	59,281

AT 31 DECEMBER 2016	CARRYING AMOUNT SHS M	NOMINAL INFLOW/ OUTFLOW SHS M	UP TO 1 MONTH SHS M	1-3 MONTHS SHS M	3-13 MONTHS SHS M	1-5 YEARS SHS M	OVER 5 YEARS SHS M
LIABILITIES							
CUSTOMER DEPOSITS	480,246	489,707	446,291	11,305	32,111	-	-
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	32,140	35,477	35,477	-	-	-	-
AMOUNTS DUE TO GROUP COMPANIES	53,384	53,383	17,294	36,089	-	-	-
DERIVATIVE LIABILITIES	9,114	9,114	9,114	-	-	-	-
OTHER BORROWED FUNDS	7,826	8,420	3,093	-	3,817	1,064	446
OTHER LIABILITIES	18,434	18,434	18,434	-	-	-	-
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	601,144	614,535	529,703	47,394	35,928	1,064	446
ASSETS							
CASH AND BANK BALANCES WITH CENTRAL BANK	76,389	100,963	100,963	-	-	-	-
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	59,519	65,121	65,121	-	-	-	-
AMOUNTS DUE FROM GROUP COMPANIES	28,186	28,186	28,186	-	-	-	-
DERIVATIVE ASSETS	9,237	9,237	9,237	-	-	-	-
LOANS AND ADVANCES TO CUSTOMERS	293,281	322,835	71,957	35,747	43,955	148,149	23,027
GOVERNMENT SECURITIES	183,454	208,028	13,002	35,577	158,816	633	-
PROPERTY AND EQUIPMENT	11,931	11,931	-	10	201	4,617	7,103
INTANGIBLE ASSETS	3,955	3,955	-	-	4	3,951	-
OTHER ASSETS	31,722	31,722	28,671	-	-	-	3,051
TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	16,694	18,376	18,376	-	-	-	-
PERFORMANCE BONDS AND STANDBYS	69,350	76,338	-	-	-	76,338	-
COMMITMENTS TO LEND	25,663	28,249	28,249	-	-	-	-
TOTAL ASSETS (EXPECTED MATURITY DATES)	809,381	904,941	363,762	71,334	202,976	233,688	33,181
ON-BALANCE SHEET MISMATCH	208,237	290,406	(165,941)	23,940	167,048	232,624	32,735
NET OFF-BALANCE SHEET MISMATCH	(111,706	(111,706	(31,093)	(19,406	(55,982	(5,225	-
NET LIQUIDITY POSITION	319,943	402,112	(134,848)	43,346	223,030	237,849	32,735

(e) Market risk

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

Currency risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2017 and 2016. Included in the table are the Bank's financial instruments, categorised by foreign currency.

AT 31 DECEMBER 2017	USD SHS M	GBP SHS M	EURO SHS M	OTHER SHS M	TOTAL SHS M
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	35,359	2,747	3,946	74	42,126
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	33,504	115	3,783	832	38,234
AMOUNTS DUE FROM GROUP COMPANIES	13,093	35	13,020	36	26,184
LOANS AND ADVANCES	168,227	-	200	1	168,428
OTHER FINANCIAL ASSETS	15,926	44	332	-	16,302
TOTAL ASSETS	266,109	2,941	21,281	943	291,274
LIABILITIES					
CUSTOMER DEPOSITS	190,161	1,639	16,370	371	208,541
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	19,702	-	-	3	19,705
AMOUNTS DUE TO GROUP COMPANIES	53,386	-	-	2	53,388
OTHER BORROWED FUNDS	-	-	610	-	610
OTHER FINANCIAL LIABILITIES	2,562	4	1,623	-	4,189
TOTAL LIABILITIES	265,811	1,643	18,603	376	286,433
NET ON-BALANCE SHEET POSITION	298	1,298	2,678	567	4,841
NET OFF-BALANCE SHEET POSITION	(3,905	(1,091	(2,423	(1,159	(8,578
OVERALL OPEN POSITION	(3,607	207	255	(592	(3,737
AT 31 DECEMBER 2016	(4,038	139	(3,390	(13	(7,302

At 31 December 2017, if the functional currency had reasonably strengthened/weakened by a reasonable change of 1% against the foreign currencies with all other variables held constant, the pre-tax profit for the year would have been Shs 26 million (2016: Shs 20 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities. Further analysis of this sensitivity has been illustrated below.

	2017 SHS M	2016 SHS M
EFFECT ON PROFIT BEFORE TAX PER CURRENCY (+/-)		
USD	46	15
GBP	22	1
EUR	51	1
OTHERS	1	+/- 2

Interest rate risk

The Bank has exposure to the effects of fluctuations in market interest rates which impacts both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored monthly. The bank is managing interest rate risk by gap analysis.

Gap Analysis

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

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

At 31 December 2017, if the interest rates on interest bearing assets and liabilities had been 100 basis points higher/ lower with all other variables held constant, the pre-tax loss for the year would have been Shs 2,088 million (2016: Shs 1,641 million) higher/ lower.

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

AT 31 DECEMBER 2016	UP TO 1 MONTH SHS M	1-3 MONTHS SHS M	3-12 MONTHS SHS M	OVER 1 YEAR SHS M	NON-INVEST BEARING SHS M	TOTAL SHS M
ASSETS						
CASH AND BANK BALANCES WITH CENTRAL BANK	10,008	7,045	-	-	111,495	128,548
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	50,369	-	-	-	12,922	63,291
AMOUNTS DUE FROM GROUP COMPANIES	12,821	-	-	-	13,363	26,184
DERIVATIVE ASSETS					37	37
LOANS AND ADVANCES TO CUSTOMERS	66,090	73,457	31,044	149,784	-	320,375
GOVERNMENT SECURITIES	254	45,211	111,265	6,675	-	163,405
PROPERTY AND EQUIPMENT	-	-	-	-	10,572	10,572
OPERATING LEASE PREPAYMENT	-	-	-	-	3,003	3,003
INTANGIBLE ASSETS	-	-	-	-	9,781	9,781
OTHER ASSETS	-	-	-	-	31,170	31,170
TOTAL ASSETS	139,542	125,713	142,309	156,459	192,343	756,366
LIABILITIES						
CUSTOMER DEPOSITS	285,403	8,503	33,034	-	217,380	544,320
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	-	-	-	19,618	19,618
AMOUNTS DUE TO GROUP COMPANIES	16,423	-	36,963	-	9,603	62,989
OTHER BORROWED FUNDS	-	-	356	870	-	1,226
OTHER LIABILITIES	-	-	-	-	21,082	21,082
EQUITY	-	-	-	-	107,131	107,131
TOTAL LIABILITIES	301,826	8,503	70,353	870	374,814	756,366
INTEREST RE-PRICING GAP	(162,284)	117,210	71,956	155,589	(182,471)	-
AT 31 DECEMBER 2016						
INTEREST SENSITIVITY GAP	(153,163)	19,879	145,649	151,783	(164,148)	-

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

(d) Fair values of financial assets and liabilities

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

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable on unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve.

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

AT 31 DECEMBER 2017	LEVEL 1 SHS M	LEVEL 2 SHS M	LEVEL 3 SHS M	TOTAL SHS M
ASSETS MEASURED AT FAIR VALUE				
CURRENCY SWAPS	-	37	-	37
AT 31 DECEMBER 2016				
CURRENCY SWAPS	-	123	-	123

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

AT 31 DECEMBER 2017				
FINANCIAL ASSETS				
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	-	63,291	-	63,291
DEPOSITS DUE FROM GROUP COMPANIES	-	26,184	-	26,184
GOVERNMENT SECURITIES	-	163,405	-	163,405
LOANS AND ADVANCES TO CUSTOMERS	-	320,375	-	320,375
OTHER ASSETS	-	12,749	-	12,749
TOTAL ASSETS	-	586,004	-	586,004
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	-	544,320	-	544,320
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	-	19,618	-	19,618
AMOUNTS DUE TO GROUP COMPANIES	-	62,989	-	62,989
OTHER BORROWINGS	-	1,226	-	1,226
OTHER LIABILITIES	-	21,082	-	21,082
TOTAL LIABILITIES	-	649,235	-	649,235
AT 31 DECEMBER 2016				
FINANCIAL ASSETS				
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	-	59,519	-	59,519
DEPOSITS DUE FROM GROUP COMPANIES	-	28,186	-	28,186
GOVERNMENT SECURITIES	-	183,454	-	183,454
LOANS AND ADVANCES TO CUSTOMERS	-	293,281	-	293,281
OTHER ASSETS	-	11,381	-	11,381
TOTAL ASSETS	-	575,821	-	575,821
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	-	480,246	-	480,246
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	-	32,140	-	32,140
AMOUNTS DUE TO GROUP COMPANIES	-	53,384	-	53,384
OTHER BORROWINGS	-	7,826	-	7,826
OTHER LIABILITIES	-	18,434	-	18,434
TOTAL LIABILITIES	-	592,030	-	592,030

There were no movements between levels 1 and 2 and no financial instruments in level 3.

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

(f) Financial instruments by category

AT 31 DECEMBER 2017	LOANS AND RECEIVABLES SHS M	HELD TO MATURITY SHS M	TOTAL SHS M
ASSETS AS PER BALANCE SHEET			
CASH AND BALANCES WITH CENTRAL BANK	128,548	-	128,548
PLACEMENTS WITH OTHER BANKS	63,291	-	63,291
AMOUNTS DUE FROM GROUP COMPANIES	26,184	-	26,184
LOANS AND ADVANCES TO CUSTOMERS	320,375	-	320,375
INVESTMENT SECURITIES:			
– HELD TO MATURITY	-	163,405	163,405
TOTAL	538,398	163,405	701,803
31 DECEMBER 2016			
ASSETS AS PER BALANCE SHEET			
CASH AND BALANCES WITH CENTRAL BANK	76,389	-	76,389
PLACEMENTS WITH OTHER BANKS	59,519	-	59,519
AMOUNTS DUE FROM GROUP COMPANIES	28,186	-	28,186
LOANS AND ADVANCES TO CUSTOMERS	293,281	-	293,281
INVESTMENT SECURITIES:			
– HELD TO MATURITY	-	183,454	183,454
TOTAL	457,375	183,454	640,829

	2017 SHS M	2016 SHS M
LIABILITIES AS PER BALANCE SHEET – AT AMORTISED COST		
CUSTOMER DEPOSITS	544,320	480,246
DEPOSITS FROM OTHER BANKS	19,618	32,140
AMOUNTS DUE TO GROUP COMPANIES	62,989	53,384
OTHER LIABILITIES	21,082	18,434
OTHER BORROWED FUNDS	1,226	7,826
TOTAL	649,235	592,030

(g) Capital management

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

The market risk approach covers the general market risk and the risk of open positions in currencies and debt, equity securities. Assets are weighted according the amount of capital deemed necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied, for example cash and money market instruments have zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries 100% risk weighting, meaning that it must be supported by capital equal to 12.5% of the carrying amount.

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

- to comply with the capital requirements set by the Central Bank;
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

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

The Central Bank requires each bank to:

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

b) maintain a core capital ratio of not less than 8% of total risk adjusted assets plus risk adjusted off balance sheet items as determined by the Central Bank by statutory instrument;

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

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

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

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

CORE CAPITAL (TIER 1)	2017 SHS M	2016 SHS M
SHARE CAPITAL	46,775	46,775
SHARE PREMIUM	23,614	23,614
RETAINED EARNINGS	28,406	20,069
LESS:		
UNREALISED FOREIGN EXCHANGE GAINS	(1,530)	-
INTANGIBLE ASSETS	(9,781)	(3,955)
DEFERRED INCOME TAX ASSET	(18,421)	(17,291)
TOTAL CORE CAPITAL	69,063	66,212
SUPPLEMENTARY CAPITAL (TIER 2)		
GENERAL PROVISIONS	3,275	3,001
SUBORDINATED DEBT	-	-
TIER 2 CAPITAL	3,275	3,001
TOTAL CAPITAL (TIER 1 AND TIER 2)	73,338	72,213

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

A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses. The table below summarises the composition of the risk weighted assets of the Bank at 31 December 2017:

	BALANCE SHEET AMOUNT		RISK WEIGHT	RISK WEIGHTED AMOUNT	
	2017	2016		2017	2016
BALANCE SHEET ASSETS (NET OF PROVISIONS)	SHS M	SHS M	%	SHS M	SHS M
CASH AND BALANCES WITH BANK OF UGANDA	128,548	76,389	0%	-	-
DUE FROM COMMERCIAL BANKS IN UGANDA	2,002	4,002	20%	400	800
AMOUNTS DUE FROM OTHER BANKS:					
RATED AAA TO AA(-)	-	47,958	20%	-	9,592
RATED A(+) TO A(-)	34,600	7,509	50%	17,300	3,755
RATED A(-) AND NON-RATED	26,680	49	100%	26,658	49
AMOUNTS DUE FROM GROUP COMPANIES	26,184	28,186	100%	26,184	28,186
LOANS AND ADVANCES TO CUSTOMERS	326,469	298,282	100%	326,469	298,282
INVESTMENT SECURITIES HELD TO MATURITY	163,405	183,454	0%	-	-
PROPERTY AND EQUIPMENT	10,572	11,931	100%	10,572	11,931
OPERATING LEASE PREPAYMENTS	3,003	3,050	100%	3,003	3,050
INTANGIBLE ASSETS (OFFSET AGAINST CORE CAPITAL)	9,781	3,955	0%	-	-
DEFERRED TAX ASSETS (OFFSET AGAINST CORE CAPITAL)	18,421	17,291	0%	-	-
OTHER ASSETS	12,786	11,504	100%	12,786	11,504
ON BALANCE SHEET ASSETS	762,451	693,560		423,394	367,149
OFF-BALANCE SHEET POSITIONS					
CONTINGENTS SECURED BY CASH COLLATERAL	20,384	11,517	0%	-	-
GUARANTEES AND ACCEPTANCES	-	-	100%	-	-
PERFORMANCE BONDS AND STANDBYS	68,197	57,833	50%	34,417	28,917
TRADE RELATED AND SELF-LIQUIDATING CREDITS	22,811	16,694	20%	4,562	3,339
COMMITMENTS TO LEND	6,737	25,663	50%	3,369	12,832
OFF BALANCE SHEET ITEMS	118,129	111,707		42,348	45,088
TOTAL RISK-WEIGHTED ASSETS	880,580	805,267		465,742	412,237

	2017	2016
CAPITAL RATIOS PER FINANCIAL INSTITUTIONS ACT (FIA)	SHS M	SHS M
CORE CAPITAL	14.8%	16.8%
TOTAL CAPITAL	15.5%	17.5%
REGULATORY MINIMUM RATIO CAPITAL REQUIREMENT:		
CORE CAPITAL	8%	8%
TOTAL CAPITAL	12%	12%

5. Interest income

	2017 SHS M	2016 SHS M
LOANS AND ADVANCES	44,074	41,193
GOVERNMENT SECURITIES	25,810	24,574
SHORT TERM PLACEMENTS	3,014	5,221
TOTAL	72,898	70,988

Included within interest income from loans and advances to customers is interest income relating to impaired assets of Shs 51 million (2016: Shs 212 million). Interest income is recognised using the effective interest rate on financial assets. These related assets are measured at amortised cost.

6. Interest expense

	2017 SHS M	2016 SHS M
CUSTOMER DEPOSITS	8,510	9,461
DEPOSITS DUE TO BANKING INSTITUTIONS	2,692	2,216
BORROWED FUNDS	145	630
OTHER	934	1,120
TOTAL	12,281	13,427

All related interest bearing liabilities were measured at amortised cost.

7. Fee and commission income

TRANSACTIONAL FEES AND COMMISSION INCOME	17,302	21,300
CREDIT RELATED FEES AND COMMISSION INCOME	5,088	4,126
TOTAL	22,390	25,426

8. Fee and commission expense

TRANSACTIONAL FEES AND COMMISSION EXPENSE	5,270	7,850
CREDIT RELATED FEES AND COMMISSION EXPENSE	63	175
TOTAL	5,333	8,025

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

9. Foreign exchange income

REALISED FOREIGN EXCHANGE GAINS	3,349	2,282
UNREALISED FOREIGN EXCHANGE GAINS/ (LOSSES)	2,767	(1,153)
TOTAL	6,116	1,129

10. Other operating income

RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF AS UNCOLLECTIBLE	679	2,282
MISCELLANEOUS INCOME	1,004	295
TOTAL	1,683	2,577

11. Operating expenses

	2017 SHS M	2016 SHS M
EMPLOYEE BENEFITS EXPENSE (NOTE 12)	30,645	26,745
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 19)	2,937	3,256
AMORTISATION OF INTANGIBLE ASSETS (NOTE 21)	1,224	1,143
AUDITOR'S REMUNERATION	235	214
LEGAL AND PROFESSIONAL FEES	493	529
MARKETING AND ADVERTISING	1,930	1,867
TRAVEL EXPENSES	1,615	1,676
EXCISE DUTY ON FEES	1,912	2,249
OCCUPANCY AND PREMISES COSTS	6,710	6,500
COMMUNICATION EXPENSES	2,939	2,615
REPAIRS AND MAINTENANCE	3,589	3,425
DEPOSIT PROTECTION SCHEME CONTRIBUTION	922	854
PRINTING AND STATIONERY	916	850
OTHER OPERATING EXPENSES	5,073	8,119
TOTAL	61,140	60,042

12. Employee benefits expense

SALARIES AND WAGES	25,185	21,207
NSSF CONTRIBUTIONS	1,868	1,626
DEFINED CONTRIBUTION SCHEME CONTRIBUTIONS	898	578
OTHER STAFF COSTS	2,694	3,334
TOTAL	30,645	26,745

13. Taxation

a) Income tax expense

CURRENT INCOME TAX CHARGE	5,335	4,914
DEFERRED INCOME TAX CREDIT (NOTE 26)	(1,130)	(1,299)
TOTAL	4,205	3,615

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

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

	2017 SHS M	2016 SHS M
PROFIT BEFORE INCOME TAX	20,878	15,758
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2016: 30%)	6,263	4,727
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(8,494)	(7,428)
TAX EFFECT OF NON-DEDUCTIBLE ITEMS	1,155	924
FINAL TAX ON GOVERNMENT SECURITIES	5,335	4,914
PRIOR YEAR DEFERRED INCOME TAX (UNDER) / OVER PROVISION	(54)	478
INCOME TAX EXPENSE	4,205	3,615
THE EFFECTIVE TAX RATE	20%	23%
TAX PAYABLE WAS AS FOLLOWS:		
AT START OF YEAR	(2,064)	(482)
CURRENT INCOME TAX CHARGE	(5,335)	(4,914)
INCOME TAX PAID	6,266	3,332
AT END OF YEAR	(1,133)	(2,064)

14. Cash and balances with Bank of Uganda

CASH ON HAND	57,320	37,761
OTHER MONEY-MARKET PLACEMENTS WITH BANK OF UGANDA	17,053	8,005
BALANCES WITH THE CENTRAL BANK	33,025	11,778
CASH RESERVE REQUIREMENT	21,150	18,845
TOTAL	128,548	76,389

15. Deposits and balances due from other banking institutions

	2017 SHS M	2016 SHS M
BALANCES DUE FROM OTHER BANKING INSTITUTIONS – OUTSIDE UGANDA	50,359	55,517
DEPOSITS WITH OTHER BANKING INSTITUTIONS – INSIDE UGANDA	12,932	4,002
TOTAL	63,291	59,519

The weighted average effective interest rate on deposits and balances due from other banking institutions was 4.5% (2016: 0.7%).

16. Government securities and derivatives

(a) Held to maturity investments – at amortised cost

	2017 SHS M	2016 SHS M
TREASURY BILLS		
FACE VALUE		
MATURING WITHIN 90 DAYS OF THE DATE OF ACQUISITION	-	-
MATURING AFTER 90 DAYS OF THE DATE OF ACQUISITION	164,556	182,602
TOTAL	164,556	182,602
UNEARNED INTEREST	(8,288)	(13,327)
TOTAL	156,268	169,275
TREASURY BONDS		
FACE VALUE	8,375	16,381
UNEARNED DISCOUNT	(1,238)	(2,202)
TOTAL	7,137	14,179
HELD TO MATURITY INVESTMENTS - AT AMORTISED COST	163,405	183,454

The weighted average effective interest rate on treasury bills and bonds was 14.6% (2016: 15.1%)

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

(b) Derivatives at fair value through profit or loss

Derivative Financial Instruments comprise Forward foreign exchange contracts that are not designated as hedging instruments. The derivative instruments held become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The derivatives held by the Bank are classified as financial assets at fair value through the profit or loss. The fair values of derivative financial instruments held are set out below:

	2017 SHS M	2016 SHS M
CURRENCY FORWARDS AND SWAPS RECEIVABLE	8,998	9,237
CURRENCY FORWARDS AND SWAPS PAYABLE	(8,961)	(9,114)
TOTAL	37	123

17. Loans and advances to customers

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

TERM LOANS	284,847	244,080
OVERDRAFTS	41,935	54,692
GROSS LOANS AND ADVANCES	326,782	298,772
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(2,777)	(2,326)
- COLLECTIVELY ASSESSED	(3,630)	(3,165)
TOTAL	320,375	293,281

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

	INDIVIDUALLY ASSESSED SHS M	COLLECTIVITY ASSESSED SHS M	TOTAL SHS M
YEAR ENDED 31 DECEMBER 2017			
AT 1 JANUARY	2,326	3,165	5,491
PROVISION FOR LOAN IMPAIRMENT	3,662	465	4,127
AMOUNTS RECOVERED DURING THE YEAR	(672)	-	(672)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(2,539)	-	(2,539)
AT 31 DECEMBER	2,777	3,630	6,407
YEAR ENDED 31 DECEMBER 2016			
AT 1 JANUARY	3,539	2,570	6,109
PROVISION FOR LOAN IMPAIRMENT	4,013	595	4,608
AMOUNTS RECOVERED DURING THE YEAR	(1,740)	-	(1,740)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(3,486)	-	(3,486)
AT 31 DECEMBER	2,326	3,165	5,491

The weighted average effective interest rate on loans and advances was 14.1% (2016: 14.8%). A sensitivity analysis on the loss ratio indicates that a 25 basis point addition in segment loss ratios impacts the profit before tax by Shs 800 M (2016: Shs 440 M).

(b) Impairment losses charged to profit or loss:

	2017 SHS M	2016 SHS M
PROVISION FOR LOAN IMPAIRMENT (NOTE 17 (A))	4,127	4,608
AMOUNTS RECOVERED DURING THE YEAR (NOTE 17 (A))	(672)	(1,740)
TOTAL	3,455	2,868

(c) Regulatory reserve

ANALYSIS AS PER BANK OF UGANDA GUIDELINES		
TOTAL IMPAIRMENT AS PER IFRS		
INDIVIDUALLY ASSESSED IMPAIRMENT (NOTE 17 (A))	2,777	2,326
COLLECTIVELY ASSESSED IMPAIRMENT (NOTE 17 (A))	3,630	3,165
TOTAL	6,407	5,491

Total provisions as per BOU guidelines

	2017 SHS M	2016 SHS M
SPECIFIC PROVISIONS	1,495	2,308
GENERAL PROVISIONS	3,275	3,001
TOTAL	4,770	5,309
REGULATORY RESERVE		
AT 1 JANUARY	-	-
TRANSFER TO THE REGULATORY RESERVE	-	-
AT 31 DECEMBER	-	-

(d) Sectoral analysis – loans and advances

	2017 SHS M	2016 SHS M
AGRICULTURE	34,487	14,005
MANUFACTURING	43,169	52,652
TRADE AND COMMERCE	77,225	70,943
FINANCIAL SERVICES	3,265	6,285
TRANSPORT AND UTILITIES	24,030	37,109
BUILDING AND CONSTRUCTION	64,464	53,264
INDIVIDUALS	45,926	37,174
OTHER	34,216	27,340
TOTAL	326,782	298,772

18. Other assets

	2017 SHS M	2016 SHS M
ACCOUNTS RECEIVABLE AND PREPAYMENTS	8,294	6,575
ITEMS IN TRANSIT	1,741	1,083
OTHER	459	607
STATIONERY STOCKS	2,255	3,116
TOTAL	12,749	11,381

19. Property and equipment

	BUILDINGS SHS M	MOTOR VEHICLES SHS M	FIXTURE, FIXING & EQUIPMENT SHS M	WORK IN PROGRESS SHS M	TOTAL SHS M
AT 1 JANUARY 2016	3,470	2,291	25,666	996	32,423
ADDITIONS	-	-	-	1,789	1,789
TRANSFERS FROM WIP	-	-	2,494	(2,494)	-
TRANSFERS(RECLASSIFICATION)	-	-	-	(166)	(166)
DISPOSALS	-	(173)	(412)	-	(585)
WRITE-OFFS	-	-	-	(26)	(26)
AT 31 DECEMBER 2016	3,470	2,118	27,748	99	33,435
ADDITIONS	-	-	-	1,697	1,697
TRANSFERS FROM WIP	-	773	826	(1,601)	(2)
DISPOSALS	-	(89)	(966	-	(1,055)
WRITE-OFFS	-	-	-	(18)	(18)
AT 31 DECEMBER 2017	3,470	2,802	27,608	177	34,057
DEPRECIATION					
AT 1 JANUARY 2016	(757)	(1,347)	(19,400)	-	(21,504)
CHARGE FOR THE YEAR	(73)	(473)	(2,391)	-	(2,937)
DEPRECIATION ON DISPOSAL	-	89	867	-	956
AT 31 DECEMBER 2017	2,640	1,071	6,684	177	10,572
NET CARRYING VALUE					
AT 31 DECEMBER 2016	2,713	771	8,348	99	11,931
AT 31 DECEMBER 2017	2,640	1,071	6,684	177	10,572

20. Operating lease prepayments

	2017 SHS M	2016 SHS M
COST		
AT 1 JANUARY	3,440	3,440
ADDITIONS	-	
-		
AT 31 DECEMBER	3,440	3,440
AMORTISATION		
AT 1 JANUARY	390	342
CHARGE FOR THE YEAR	47	48
AT 31 DECEMBER	437	390
NET BOOK VALUE		
AT 31 DECEMBER	3,003	3,050

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

21. Intangible assets

NET BOOK AMOUNT AT 1 JANUARY	3,955	4,022
ADDITIONS: COMPUTER SOFTWARE	7,143	1,112
TRANSFERS (RECLASSIFICATION) FROM CAPITAL WIP TO INTANGIBLE ASSETS	-	166
WRITE-OFFS	(93)	(203)
AMORTISATIONS	(1,224)	(1,142)
NET BOOK AMOUNT AT 31 DECEMBER	9,781	3,955
COST	16,794	9,744
ACCUMULATED DEPRECIATION	(7,013)	(5,789)
NET BOOK AMOUNT	9,781	3,955

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

22. Customer deposits

(A) CURRENT AND DEMAND DEPOSITS	265,418	234,823
SAVINGS ACCOUNTS	193,185	171,226
FIXED DEPOSIT ACCOUNTS	64,865	61,000
MARGIN DEPOSITS	20,852	13,197
TOTAL	544,320	480,246
(B) SECTORAL ANALYSIS - CUSTOMER DEPOSITS		
BANKS AND FINANCIAL INSTITUTIONS	34,434	18,910
PRIVATE ENTERPRISES AND INDIVIDUALS	218,486	185,839
GOVERNMENT AND PARASTATALS	32,472	31,128
AGRICULTURE	24,274	16,622
BUILDING AND CONSTRUCTION	46,131	53,104
MANUFACTURING	10,434	5,117
TRADE AND COMMERCE	55,050	54,312
TRANSPORT AND UTILITIES	23,277	24,748
OTHER SERVICES	99,762	90,466
TOTAL	544,320	480,246

23. Deposits and balances due to other banking Institutions

	2017 SHS M	2016 SHS M
ITEMS IN COURSE OF COLLECTION	19,618	20,134
TERM DEPOSITS	-	12,006
TOTAL	19,618	32,140

Term deposits with other banking institutions are interest bearing. The weighted average effective interest rate on deposits and balance due to other banking institutions was 0% (2016: 3.3%).

24. Other borrowings

	2017 SHS M	2016 SHS M
EIB – PRIVATE ENTERPRISE FINANCE FACILITY	785	4,390
FMO - TERM FACILITY	-	2,805
BOU AGRICULTURAL CREDIT FACILITY	440	631
TOTAL	1,225	7,826

The EIB - Private Enterprise Finance Facility relates to a line of credit granted to the Bank for financing projects to be carried out in Uganda by private enterprises or microfinance institutions in selected sectors. Each tranche of these funds attracts a fixed rate based on the twelve month average of interest rates offered by Ugandan deposit-taking banks for three months term deposits as published by Central Bank plus a margin which averaged 10.5% for 2017. Each tranche has a minimum tenor of three years and a maximum tenor of ten years.

The FMO Term Facility was a line of credit granted to the Bank in 2011 to lend to eligible sub-borrowers with matching funds provided by the Bank. The Euro denominated funds attract a floating rate of interest equivalent to the weighted average deposit rate of banks in Uganda as published by the Central Bank plus a margin. The US Dollar denominated funds attract an interest rate per annum which is the aggregate of the applicable margin and LIBOR. These funds have a tenor of five years.

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

25. Other liabilities

	2017 SHS M	2016 SHS M
OTHER LIABILITIES		
BILLS PAYABLE	665	318
CREDITORS	5,896	4,829
ACCRUALS	13,039	10,904
OTHER PAYABLES	350	309
TOTAL	19,950	16,370

26. Deferred income tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable tax rate of 30%. The net deferred tax asset comprises:

	2017 SHS M	2016 SHS M
ACCELERATED CAPITAL ALLOWANCES	(824)	(1,087)
TAX LOSSES BROUGHT FORWARD	17,047	16,058
PROVISIONS FOR LOAN IMPAIRMENT	1,238	956
OTHER PROVISIONS	1,419	993
UNREALISED TRANSLATION DIFFERENCES	(459)	371
NET DEFERRED TAX ASSET	18,421	17,291

The movement on the deferred tax asset account is as follows:

	2017 SHS M	2016 SHS M
AT START OF YEAR	17,291	15,992
INCOME STATEMENT CREDIT – CURRENT YEAR (NOTE 13)	1,130	1,299
AT END OF YEAR	18,421	17,291

27. Share capital

	NUMBER OF SHARES ISSUED & FULLY PAID (THOUSANDS)	ORDINARY SHARES SHS M	SHARE PREMIUM SHS M
2016			
BALANCE AT 1 JANUARY 2016	46,775	46,775	23,614
BALANCE AT 31 DECEMBER 2016	46,775	46,775	23,614
2017			
BALANCE AT 1 JANUARY 2017	46,775	46,775	23,614
BALANCE AT 31 DECEMBER 2017	46,775	46,775	23,614

The total authorised number of ordinary shares is Shs 46.7 million (2016: Shs 46.7 million) with a par value of Shs 1,000 per share.

28. Bank shareholding

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

29. Analysis of cash and cash equivalents

	2017 SHS M	2016 SHS M
CASH AND BALANCES WITH BANK OF UGANDA (NOTE 14)	107,398	57,544
DEPOSITS AND BALANCES DUE FROM OTHER BANKS (NOTE 15)	63,291	59,519
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 32(A))	26,184	28,186
TOTAL	196,873	145,249

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 also excludes the cash reserve requirement held with BOU.

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

30. Earnings per share

	2017	2016
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (MILLION USHS)	16,673	12,143
WEIGHTED AVERAGE NUMBER OF PAID UP ORDINARY SHARES (THOUSANDS)	46,775	46,775
EARNINGS PER SHARE (EXPRESSED IN USHS PER SHARE)	356.46	259.60

There were no potentially dilutive shares outstanding at 31 December 2017 (2016: Nil).

31. Dividends

	2017		2016	
	PER SHARE SHS M	TOTAL SHS M	PER SHARE SHS M	TOTAL SHS M
PROPOSED DIVIDENDS	178.23	8,337	129.80	6,072

At the annual general meeting to be held in 2018, a dividend of Shs 178.23 per share amounting to Shs 8,337 million in total is to be proposed (2016: 129.80). The payment of dividends is subject to withholding tax at rates depending on the tax status or residence of the recipient.

32. Related party balances

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

(a) Due from group companies

	2017 SHS M	2016 SHS M
BANK OF AFRICA – RDC	12,821	14,668
BANK OF AFRICA – FRANCE	12,746	2,307
BANK OF AFRICA – KENYA	32	6,648
BANK OF AFRICA – GHANA	-	3,612
BANK OF AFRICA – TANZANIA	39	855
BANK OF AFRICA– RWANDA	93	-
BMCE BANK INTERNATIONAL	453	96
TOTAL	26,184	28,186

These are current account balances and overnight placements measured at amortised cost and held for liquidity management reasons. They have a weighted average interest rate of 1.2%.

(b) Amounts due to group companies

	2017 SHS M	2016 SHS M
BANK OF AFRICA – MER ROUGE	53,386	52,949
BANK OF AFRICA – KENYA	8,666	108
BANK OF AFRICA – TANZANIA	7	5
BANK OF AFRICA – RDC	243	281
BANK OF AFRICA – RWANDA	467	21
BMCE BANK INTERNATIONAL	20	20
TOTAL	62,989	53,384

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

(c) Related party balances

	2017 SHS M	2016 SHS M
DEPOSITS FROM DIRECTORS AND SHAREHOLDERS	120	115
LOANS TO DIRECTORS	22	50
ADVANCES TO STAFF	6,655	5,976
TOTAL	6,677	6,026

(d) Related party transactions

Interest:

Interest paid to related parties/directors

	2017 SHS M	2016 SHS M
BANK OF AFRICA – MER ROUGE	2,411	646
BANK OF AFRICA - KENYA	-	130
TOTAL	2,411	776

Interest earned from related parties

	2017 SHS M	2016 SHS M
BANK OF AFRICA – KENYA	114	60
BANK OF AFRICA - TANZANIA	42	86
BANK OF AFRICA – RDC	373	261
BANK OF AFRICA - GHANA	51	42
TOTAL	580	449

Directors' remuneration:

DIRECTORS' FEES	735	513
OTHER EMOLUMENTS	5,212	4,124
TOTAL	5,947	4,637

Key management compensation:

SALARIES AND SHORT-TERM BENEFITS	4,684	3,242
TERMINAL BENEFITS	282	108
TOTAL	4,966	3,350

33. Off-balance sheet financial instruments, contingent liabilities and commitments

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

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

The following are the commitments outstanding at year end:

	2017 SHS M	2016 SHS M
TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	22,811	16,694
PERFORMANCE BONDS AND STANDBYS	88,581	69,350
TOTAL	111,392	86,044

Non-trade contingent liabilities

There were outstanding legal proceedings against the Bank as at 31 December 2017 which arise from normal day to day banking operations. In the opinion of the directors, after taking professional legal advice, the estimated potential liability to the Bank from these proceedings is Shs 837 million (2016: Shs 606 million).

Other commitments

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for fixed periods.

The Bank may withdraw from its contractual obligations to extend credit by giving reasonable notice to the customers.

At 31 December, these included:

	2017 SHS M	2016 SHS M
COMMITMENTS TO LEND	6,737	25,663
CURRENCY SWAPS AND FORWARDS PAYABLE	8,961	4,887