

Bank of Africa - Uganda Limited

Financial Statements

31 December 2010

BANK OF AFRICA - UGANDA LTD

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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BANK OF AFRICA - UGANDA LTD**CORPORATE INFORMATION**

DIRECTORS	J Carruthers E Monday A Isiko V de Brouwer M Kiwanuka P Derreumaux S Merali A Bennani P Lock	- Chairman - Managing Director - Executive Director - Non-executive Director - Non-executive Director - Non-executive Director - Non-executive Director - Non-executive Director - Non-executive Director
COMPANY SECRETARY	R Nabunya Plot 45 Jinja road P.O. Box 2750 Kampala	
AUDITORS	Deloitte & Touche Certified public Accountants (Uganda) Rwenzori House, 1 Lumumba Avenue P. O. Box 10314 Kampala	
REGISTERED OFFICE	Bank of Africa - Uganda Ltd. Plot 45 Jinja road P.O. Box 2750 Kampala	
BRANCHES	<p>MAIN BRANCH Plot 45, Jinja Road P.O. Box 2750 Kampala</p> <p>NDEEBA BRANCH Plot 1024 Masaka Rd Ndeeba P. O. Box 2750 Kampala</p> <p>KAMPALA ROAD BRANCH Plot 48 Kampala Road P.O. Box 2750 Kampala</p> <p>WANDEGEYA BRANCH KM Plaza, Plot 85 Bombo Road P. O. Box 2750 Kampala</p> <p>NAKIVUBO BRANCH Plot 15 Nakivubo Road P.O. Box 2750 Kamapala</p> <p>KABALAGALA BRANCH Plot 559 Ggaba Road Kabalagala P.O. Box 2750 Kampala</p> <p>JINJA BRANCH Plot 1 Main Street P.O. Box 2095 Jinja</p> <p>ARUA BRANCH Plot 19 Avenue Road P.O. Box 894 Arua</p> <p>MBARARA BRANCH Plot 1 Mbaguta Road P.O. Box 1163 Mbarara</p> <p>FORT PORTAL BRANCH Plot 14 Bwamba Road Fort portal</p> <p>NALUKOLONGO BRANCH Plot 4 Wankulukuku Road P. O. Box 2750 Kampala</p>	<p>EQUATORIAL BRANCH Plot 84/86 Ben Kiwanuka Street P.O. Box 2750 Kampala</p> <p>PARK BRANCH Mukwano Centre, Plot 40/46 Ben Kiwanuka Street P.O. Box 2750 Kampala</p> <p>NTINDA BRANCH Plot 49 Ntinda Road, Ntinda P.O Box 2750 Kampala</p> <p>ENTEBBE BRANCH Plot 16 Kampala Road P. O. Box 2750 Kampala</p> <p>MUKONO BRANCH Plot 13 Kampala Road P.O. Box 2750 Kampala</p> <p>OASIS BRANCH Oasis Mall Plot 88/94 Yusuf Lule Road P.O. Box 2750 Kampala</p> <p>JINJA CLIVE ROAD BRANCH Plot 18, Clive Road East P.O Box 2095 Jinja</p> <p>LIRA BRANCH Plot 1A Balla Road P.O. Box 292 Lira</p> <p>MBALE BRANCH Plot 26, Cathedral Avenue P.O. Box 553 Mbale</p> <p>GULU BRANCH Plot 11 Awere Road P. O. Box 921 Gulu</p> <p>KAWEMPE BRANCH Plot 125 Bombo Road P. O. Box 2750 Kampala</p>

BANK OF AFRICA - UGANDA LTD

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their report together with the audited financial statements for the year ended 31 December 2010, which disclose the state of affairs of Bank of Africa - Uganda Limited ("the bank").

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

	Ushs millions
Profit before taxation	3,456
Taxation - credit	195
	<hr/>
Profit for the year	<u>3,651</u>

CORPORATE GOVERNANCE

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

Board of Directors

Bank of Africa - Uganda Limited has a broad-based board of directors. The board functions either as a full board or through various committees constituted to oversee specific operational areas. The board has constituted four committees. These are the Risk Management Committee, Assets and Liabilities Management Committee, Human Resources and Compensation Committee, and the Audit Committee. All board committees are constituted and chaired by non-executive directors. As at 31 December 2010, the Board of Directors consisted of 9 members.

Committee	Head	Membership	Meeting frequency
Risk Management	Non-executive director	3 non-executive members 1 executive member	Quarterly
Assets and Liabilities Management	Non-executive director	3 non-executive members 1 executive member	Quarterly
Human Resources and Compensation	Non-executive director	2 non-executive members 2 executive member	Quarterly
Audit	Non-executive director	4 non-executive members	Quarterly

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

BANK OF AFRICA - UGANDA LTD

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

CORPORATE GOVERNANCE (Continued)

DIVIDEND

The directors recommend the payment of a dividend as detailed in note 31.

DIRECTORS

The present membership of the board is shown on page 2. Mr. M Khan resigned as managing director on 14 January 2010 and was replaced by Mrs Edigold Monday. Mr. Arthur Isiko was appointed as Executive Director on 14 January 2010.

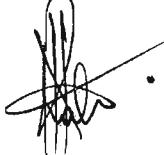
During the financial year and up to the date of this report, other than as disclosed in Note 34 to the financial statements, no director has received or become entitled to receive any benefit other than directors' fees, and amounts receivable by executive directors under employment contracts and the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

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

AUDITORS

Deloitte & Touche, who were appointed in the current year, have expressed their willingness to continue in office in accordance with Section 159(2) of the Companies Act (Cap.110) and in line with section 67 of the Financial Institutions Act, 2004.

BY ORDER OF THE BOARD



Secretary

Kampala

22 February 2011

BANK OF AFRICA - UGANDA LTD

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

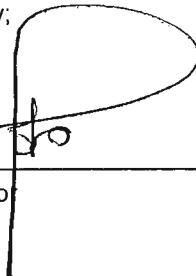
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with the Financial Institutions Act, International Financial Reporting Standards and in the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

The directors certify that to the best of their knowledge, the information furnished to the auditors for the purpose of the audit was correct and is an accurate presentation of the bank's financial transactions.

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

Signed on behalf of the Board of Directors by;

Emmanuel
Director


T. Bo
Director

Paul Mwamba
Director

22 February 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF AFRICA - UGANDA LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Bank of Africa - Uganda Limited set out on pages 8 to 55 which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the Financial Statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the bank as at 31 December 2010 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Ugandan Companies Act and Financial Institutions Act, 2004.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF AFRICA -
UGANDA LIMITED (continued)**

Report on Other Legal Requirements

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

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the bank, so far as appears from our examination of those books; and
- iii) the bank's statement of financial position and the statement of comprehensive income are in agreement with the books of account.

Deloitte & Touche
Certified Public Accountants (Uganda)

22 FEBRUARY 2011

Kampala

BANK OF AFRICA - UGANDA LTD

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	2010 Ushs millions	2009 Ushs millions
INTEREST INCOME	6	27,981	23,778
INTEREST EXPENSE	7	(11,062)	(9,994)
NET INTEREST INCOME		16,919	13,784
Fee and commission income	8	8,038	6,981
Fee and commission expense	9	(1,168)	(836)
Loss on financial assets at fair value through profit or loss		(55)	(356)
Foreign exchange gains	10	2,122	2,302
Other operating income		259	80
NET OPERATING INCOME		26,115	21,955
Net impairment loss on loans and advances	18(b)	(1,410)	(820)
Operating expenses	12	(21,249)	(16,917)
PROFIT BEFORE TAXATION		3,456	4,218
TAXATION CREDIT/(CHARGE)	13(a)	195	(897)
PROFIT FOR THE YEAR		3,651	3,321
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,651	3,321
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent		1,870	1,700
Non-controlling interest		1,781	1,621
		3,651	3,321
Basic and diluted earnings per share (Ushs per share)	33	452	485

BANK OF AFRICA - UGANDA LTD

STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2010

	Notes	2010 Ushs millions	2009 Ushs millions
ASSETS			
Cash and balances with Bank of Uganda	14	28,298	22,596
Deposits and balances due from banking institutions	15	17,696	20,345
Amounts due from group companies	34(a)	3,341	437
Government securities	16(b)	72,488	48,747
Loans and advances to customers	17(a)	155,290	115,278
Other assets	19	2,690	2,237
Tax recoverable	13(c)	617	491
Property and equipment	20	14,280	11,460
Operating lease prepayments	21	1,100	1,125
Intangible asset	22	1,350	1,021
Deferred tax asset	28	814	-
		-----	-----
Total assets		297,964	223,737
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits	23	220,611	159,828
Deposits and balances due to banking institutions	25	13,535	14,166
Amounts due to group companies	34(b)	9,519	623
Derivatives at fair value through profit or loss	16(c)	3	14
Other borrowed funds	26	18,552	20,262
Other liabilities	27	3,516	2,463
Deferred tax liability	28	-	183
		-----	-----
Total liabilities		265,736	197,539
EQUITY			
Share capital	29	8,666	7,508
Share premium	29	9,420	6,538
Regulatory reserve		1,559	1,400
Retained earnings		12,583	10,752
		-----	-----
Shareholder's funds		32,228	26,198
Total equity and liabilities		297,964	223,737

The financial statements on pages 8 to 55 were approved by the board of directors on
and were signed on its behalf by:

J. M. Odeere
Director

M. H. Odeere
Director

R. K. Mwesigwa
Director

D. S. M. Mwesigwa
Secretary

22/2/2011

BANK OF AFRICA - UGANDA LTD

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Share capital Ushs millions	Share premium Ushs millions	Regulatory reserve* Ushs millions	Retained earnings Ushs millions	Total Ushs millions
2009					
At 1 January 2009	6,278	3,738	835	9,722	20,573
Total comprehensive income for the year	-	-	-	3,321	3,321
Issue of shares (note 29)	1,230	2,800	-	-	4,030
Transfer to regulatory reserve	-	-	565	(565)	-
Final dividend paid for 2008 (note 31)	-	-	-	(1,726)	(1,726)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	<u>7,508</u>	<u>6,538</u>	<u>1,400</u>	<u>10,752</u>	<u>26,198</u>
2010					
At 1 January 2010	7,508	6,538	1,400	10,752	26,198
Total comprehensive income for the year	-	-	-	3,651	3,651
Issue of shares (note 29)	1,158	2,882	-	-	4,040
Transfer to regulatory reserve - general provision note 18(c)	-	-	159	(159)	-
Final dividend paid for 2009 (note 31)	-	-	-	(1,661)	(1,661)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	<u>8,666</u>	<u>9,420</u>	<u>1,559</u>	<u>12,583</u>	<u>32,228</u>

*The regulatory reserve represents an appropriation from retained earnings to comply with Bank of Uganda's prudential guidelines on impairment of loans and advances. It represents the excess of loan provision as computed in accordance with Bank of Uganda prudential guidelines over the impairment of loans and advances arrived at in accordance with IAS 39.

BANK OF AFRICA - UGANDA LTD

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	2010 Ushs millions	2009 Ushs millions
Cash flows from operating activities			
Interest receipts		27,409	23,565
Interest payments		(9,766)	(8,983)
Net fee and commission receipts		6,870	6,145
Other income received		2,379	2,375
Recoveries from loans previously written off	18(b)	4,087	837
Payments to employees and suppliers		(18,677)	(17,094)
Income tax paid	13(c)	(928)	(916)
Purchase of securities		(23,689)	(15,484)
		<hr/>	<hr/>
Cash flows from operating activities before changes in operating assets and liabilities		(12,315)	(9,555)
Changes in operating assets and liabilities:			
- loans and advances		(45,369)	(30,476)
- cash reserve requirement		(6,559)	(3,862)
- other assets		(178)	450
- customer deposits		59,709	31,410
- deposits (to)/from other banks		(891)	10,945
- amounts due from/(to) group companies		8,896	(2,617)
- other liabilities		788	228
		<hr/>	<hr/>
Net cash generated from operating activities		<u>4,081</u>	<u>(3,477)</u>
Cash flows from investing activities			
Purchase of property and equipment	20	(5,166)	(4,399)
Purchase of intangible assets	22	(544)	(31)
Proceeds from sale of property and equipment		13	86
		<hr/>	<hr/>
Net cash used in investing activities		<u>(5,697)</u>	<u>(4,344)</u>
Cash flows from financing activities			
Issue of ordinary shares	29	4,040	4,030
(Repayment of)/proceeds from borrowed funds		(1,672)	3,303
Dividends paid	31	(1,661)	(1,726)
		<hr/>	<hr/>
Net cash generated from financing activities		<u>707</u>	<u>5,607</u>
Net decrease in cash and cash equivalents			
		<u>(909)</u>	<u>(2,214)</u>
Cash and cash equivalents at start of year		27,592	29,806
		<hr/>	<hr/>
Cash and cash equivalents at end of year	32	<u>26,683</u>	<u>27,592</u>

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1 REPORTING ENTITY

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

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

(a) New standards and amendments to published standards effective for the year ended 31 December 2010

	Effective for annual periods beginning on or after
<i>Amendments and revised standards</i>	
IFRS 1, First-time adoption of International Financial Reporting Standards – revised and restructured	01 July 2009
IFRS 1, First-time adoption of International Financial Reporting Standards – amendments relating to oil and gas assets and determining whether an arrangement contains a lease	01 January 2010
IFRS 2, Share-based payment – amendments relating to group cash-settled share-based payment transactions	01 January 2010
IFRS 3 (Revised 2008), Business Combinations – comprehensive revision on applying the acquisition method	01 July 2009
IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; and IAS 31, Interests in Joint Ventures – consequential amendments arising from amendments to IFRS 3	01 July 2009
IAS 39, Financial Instruments: Recognition and Measurement – amendments for eligible hedged items	01 July 2009
Various improvements resulting from May 2008, April 2009 and May 2010 Annual Improvements to IFRSs	1 July 2009 and 1 January 2010
<i>New interpretations</i>	
IFRIC 17, Distributions of Non-cash Assets to Owners	01 July 2009
IFRIC 18, Transfers of Assets from Customers	Transfers received on or after 1 July 2009

(b) New and amended interpretations in issue but not yet effective in the year ended 31 December 2010

	Effective for annual periods beginning on or after
<i>New and Amendments to standards</i>	
IFRS 1, First-time Adoption of International Financial Reporting Standards – limited exemption from comparative IFRS 7 disclosures for first-time adopters	01 July 2010
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation.	01 July 2011
IFRS 7, Financial Instruments: Disclosures – amendments enhancing disclosures about transfers of financial assets	01 January 2011
IFRS 9, Financial Instruments – Classification and Measurement	01 January 2013
IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets)	01 January 2012
IAS 24, Related Party Disclosures – revised definition of related parties	01 January 2011
Various improvements resulting from May 2010 Annual Improvements to IFRSs	1 July 2010 and 1 January 2011
IAS 32, Financial Instruments: Presentation – amendments relating to classification of rights issues	01 February 2010
<i>New interpretation</i>	
IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

(c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)

The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.

Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of investments in securities.

Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)

The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

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

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

IFRS 3 (revised in 2008) Business Combinations

The impact of the application of IFRS 3(2008) is as follows.

IFRS 3(2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

IFRS 3(2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

IFRS 3(2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

- (c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods (continued)

IFRS 3 (revised in 2008) Business Combinations (continued)

IFRS 3(2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

As part of *Improvements to IFRSs* issued in 2010, IFRS 3(2008) was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition (see above) is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.

In addition, as part of *Improvements to IFRSs* issued in 2010, IFRS 3(2008) was amended to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date ('market-based measure').

IAS 27 (revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27(2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

IAS 28 (revised in 2008) Investments in Associates

The principle adopted under IAS 27(2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

As part of *Improvements to IFRSs* issued in 2010, IAS 28(2008) has been amended to clarify that the amendments to IAS 28 regarding transactions where the investor loses significant influence over an associate should be applied prospectively.

Except as indicated, these amendments have had no effect on the amounts reported by the bank.

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

- (c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods**

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters

The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2008)

The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

IFRIC 17 Distributions of Non-cash Assets to Owners

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IFRIC 18 Transfers

The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets

Improvements to IFRSs issued in 2009 and 2010

Except for the amendments to IFRS 5, IAS 1 and IAS 7 described earlier, the application of Improvements to IFRSs issued in 2009 and 2010 has not had any material effect on amounts reported in

IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

(c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods (continued)

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the bank's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to IFRS 7 titled *Disclosures – Transfers of Financial Assets*

These increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the bank's disclosures regarding transfers of trade receivables. However, if the bank enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IAS 24 Related Party Disclosures (as revised in 2009)

This modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the bank because the bank is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to IAS 32 titled *Classification of Rights Issues*

These address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. If the bank does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRIC 19, Extinguishing Financial Liabilities with Equity

This provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the bank has not entered into transactions of this nature. However, if the bank does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. *Except as indicated, these amendments have had no effect on the amounts reported by the bank.*

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES.

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting.

Functional and presentation currency

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

Use of Estimates

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

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

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

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

INTEREST INCOME AND EXPENSE

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

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

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

FEES AND COMMISSIONS

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

FINANCIAL INSTRUMENTS

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

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Held-to maturity

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

Available-for-sale

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Recognition and measurement

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

IMPAIRMENT OF FINANCIAL ASSETS

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

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty,
- (d) granting to the borrower a concession that the lender would not otherwise consider;
- (e) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (f) the disappearance of an active market for that financial asset because of financial difficulties; or

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

(g) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- (i) adverse changes in the payment status of borrowers in the portfolio; and
- (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

Assets carried at amortised cost

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

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

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

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

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

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

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

Assets carried at fair value

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

FINANCIAL LIABILITIES

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

BORROWINGS

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

PROPERTY AND EQUIPMENT

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

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

Buildings	50 years
Fixtures, fittings and equipment	3-8 years
Motor vehicles	4 years

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY AND EQUIPMENT (Continued)

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

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

LEASEHOLD LAND

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

INTANGIBLE ASSETS

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

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

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

IMPAIRMENT

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

LEASES

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

With the Bank as lessee

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (Continued)

With the Bank as lessor

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

CASH AND CASH EQUIVALENTS

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

EMPLOYEE BENEFITS

National Social Security Fund Contribution

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

Defined contribution retirement benefit scheme

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

Other entitlements

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

OFFSETTING OF ASSETS AND LIABILITIES

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

SALE AND REPURCHASE AGREEMENTS

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

TAXATION

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

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

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

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

SHARE CAPITAL

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

REGULATORY RESERVE

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

CUSTOMER DEPOSITS

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

DIVIDENDS PAYABLE

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

FIDUCIARY ACTIVITIES

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

CONTINGENT LIABILITIES

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

COMMITMENTS

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

COMPARATIVES

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Impairment losses on loans and advances

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

(b) Fair value of derivatives

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

(c) Held-to-maturity financial assets

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

5 FINANCIAL RISK MANAGEMENT

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

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

a) Credit Risk

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk (Continued)

(i) Credit risk measurement

Loans and advances (including commitments and guarantees)

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

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

Probability of default

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

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

Bank's internal ratings scale

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

Exposure at default

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

Loss given default

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (continued)

(ii) Risk limit control and mitigation policies

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

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

Some other specific control and mitigation measures are outlined below:

Collateral

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

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

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

Credit related commitments

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

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (continued)

(iii) Impairment and provisioning policies

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

Bank's rating	2010		2009	
	Credit exposure %	Impairment allowance %	Credit exposure %	Impairment allowance %
Performing	90.9	36.4	90.7	39.5
Watch	6.6	2.7	6.3	2.7
Substandard	1.1	18.9	2.0	9.0
Doubtful	0.6	15.3	0.7	26.6
Loss	0.8	26.7	0.3	22.2
	<hr/> <u>100.0</u>	<hr/> <u>100.0</u>	<hr/> <u>100.0</u>	<hr/> <u>100.0</u>

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

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

Maximum exposure to credit risk before collateral held:

	2010 Ushs millions	2009 Ushs millions
On-balance sheet items		
Balances with Bank of Uganda (cash ratio requirement)	15,263	10,045
Amounts due from other banks	17,696	20,345
Amounts due from group companies	3,341	437
Loans and advances to customers	155,290	115,278
Investment securities held for trading	25,175	-
Investment securities held-to-maturity	47,313	48,747
Off-balance sheet items		
- Acceptances and letters of credit	31,144	15,702
- Guarantee and performance bonds	29,584	21,071
- Commitments to lend	5,591	7,777
	<hr/> <u>330,397</u>	<hr/> <u>239,402</u>

Credit exposure by aging

Short term credits (<1 year)	68,183	56,727
Medium term credits (> 1 year < 5 years)	79,654	47,370
Long term credits (> 5 years)	9,836	12,610
Bills/Cheques/Notes discounted	84	65
	<hr/> <u>157,757</u>	<hr/> <u>116,772</u>
Acceptances and letters of credit	31,144	15,702
Guarantee and performance bonds	29,584	21,071
	<hr/> <u>60,728</u>	<hr/> <u>36,773</u>
Total exposure	<hr/> <u>218,485</u>	<hr/> <u>153,545</u>

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (continued)

(iii) Impairment and provisioning policies (continued)

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 58% of the total maximum exposure is derived from loans and advances to banks and customers (2009: 61%). 22% represents investments in debt securities (2009: 20%).

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

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

- 98% of the investments in debt securities are government securities;
- the Bank exercises stringent controls over the granting of new loans;
- 98% of the loans and advances portfolio are neither past due nor impaired;
- 96% of the loans and advances portfolio are backed by collateral;

Financial assets that are past due or impaired:

	2010 Ushs millions	2009 Ushs millions
Neither past due nor impaired	148,397	113,200
Past due but not impaired	7,652	2,400
Individually impaired	1,708	1,172
 Gross	 157,757	 116,772
<i>Less: allowance for impairment</i>	<i>(2,468)</i>	<i>(1,494)</i>
 <hr/>	 <hr/>	 <hr/>
	<hr/> 155,289	<hr/> 115,278

No other financial assets are either past due or impaired.

Loans and advances neither past due nor impaired:

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

	2010 Ushs millions	2009 Ushs millions
Performing	138,039	105,869
<i>Watch</i>	10,358	7,331
 <hr/>	<hr/>	<hr/>
	<hr/> 148,397	<hr/> 113,200

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

5 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (continued)

(iii) Impairment and provisioning policies (continued)

Loans and advances past due but not impaired:

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

	2010 Ushs millions	2009 Ushs millions
Past due up to 30 days	1,934	1,003
Past due 31 – 60 days	1,132	359
Past due 61 – 90 days	2,290	259
Past due over 90 days	2,296	779
	<hr/>	<hr/>
	<hr/>	<hr/>
	7,652	2,400

Loans and advances individually impaired:

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

	Loans		Overdrafts	
	2010 Ushs millions	2009 Ushs millions	2010 Ushs millions	2009 Ushs millions
Individually assessed impaired loans and advances				
- Corporate	32	113	-	-
- SME	219	518	164	224
- Consumer	738	277	555	162
	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
	989	908	719	386
Fair value of collateral	8,032	494	8,032	494

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (continued)

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

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

	Loans and advances %	Credit commitments %	Customer deposits %
31 December 2010			
Agricultural	3.0	1.6	3.3
Manufacturing	3.1	3.4	1.0
Trade and Commerce	31.9	12.1	8.9
Financial Services	2.0	1.4	16.3
Transport and Utilities	6.5	5.8	3.6
Building and Construction	7.4	30.8	7.4
Individuals	18.9	4.4	20.4
Other	27.2	40.4	39.1
	<hr/>	<hr/>	<hr/>
	100.0	100.0	100.0
31 December 2009			
Agricultural	3.1	1.5	5.1
Manufacturing	2.5	8.7	0.9
Trade and Commerce	33.3	16.4	8.2
Financial Services	3.2	3.6	20.4
Transport and Utilities	7.3	7.1	5.1
Building and Construction	10.1	37.8	7.2
Individuals	11.0	4.2	18.1
Other	29.6	20.7	35.0
	<hr/>	<hr/>	<hr/>
	100.0	100.0	100.0

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue.

These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled Ushs 2,432 million (2009: Ushs 484 million).

Repossessed collateral

During 2010, the Bank obtained assets by taking possession of collateral held as security as follows:

Nature	Carrying amount Ushs millions
Residential property	<hr/> 4,087

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

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk

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

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

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

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

	Up to 1 month Ushs millions	1-3 months Ushs millions	3-12 months Ushs millions	1-5 years Ushs millions	Over 5 years Ushs millions	Total Ushs millions
At 31 December 2010						
Financial assets						
Cash and bank balances with Bank of Uganda	28,298	-	-	-	-	28,298
Deposits and balances due from banking institutions	17,696	-	-	-	-	17,696
Loans and advances to customers	43,481	10,458	11,860	79,654	9,837	155,290
Government securities	25,376	5,717	26,436	14,959	-	72,488
Total assets (expected maturities)	114,851	16,175	38,296	94,613	9,837	273,772
Financial liabilities						
Customer deposits	164,916	4,794	50,716	185	-	220,611
Deposits and balances due to banking institutions	8,316	5,219	-	-	-	13,535
Other borrowed funds	-	-	84	4,013	14,455	18,552
	173,232	10,013	50,800	4,198	14,455	252,698
Net liquidity gap	(58,381)	6,162	(12,504)	90,415	(4,618)	

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk (continued)

	Up to 1 month Ushs millions	1-3 months Ushs millions	3-12 months Ushs millions	1-5 years Ushs millions	Over 5 years Ushs millions	Total Ushs millions
At 31 December 2009						
Financial assets						
Cash and bank balances with Bank of Uganda	22,596	-	-	-	-	22,596
Deposits and balances due from banking institutions	20,345	-	-	-	-	20,345
Loans and advances to customers	36,268	7,663	11,367	47,370	12,610	115,278
Government securities	2,215	8,157	27,589	10,786	-	48,747
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets (expected maturities)	<u>81,424</u>	<u>15,820</u>	<u>38,956</u>	<u>58,156</u>	<u>12,610</u>	<u>206,966</u>
Financial liabilities						
Customer deposits	124,836	9,211	25,504	254	23	159,828
Deposits and balances due to banking institutions	12,166	2,000	-	-	-	14,166
Other borrowed funds			155	5,777	14,330	20,262
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<u>137,002</u>	<u>11,211</u>	<u>25,659</u>	<u>6,031</u>	<u>14,353</u>	<u>194,256</u>
Net liquidity gap	<u>(55,578)</u>	<u>4,609</u>	<u>13,297</u>	<u>52,125</u>	<u>(1,743)</u>	

c) Market risk

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

Market risk management

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, and other marked-to-market positions so designated.

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

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

(i) Currency risk

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

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

At 31 December 2010	USD	GBP	EUR	Other	Total
Financial assets					
Cash and balances with Bank of Uganda	2,596	656	1,762	34	5,048
Deposits and balances due from banking	10,483	786	5,050	375	16,694
Loans and advances	39,634	37	780	4,976	45,427
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	52,713	1,479	7,592	5,385	67,169
Financial liabilities					
Customer deposits	35,891	447	9,281	368	45,987
Deposits and balances due to banking	7,489	-	-	300	7,789
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	43,380	447	9,281	668	53,776
Net on-balance sheet position	<u>9,333</u>	<u>1,032</u>	<u>(1,689)</u>	<u>4,717</u>	<u>13,393</u>
Net off-balance sheet position	(316)	(93)	(587)	300	(696)
Overall open position	<u>9,017</u>	<u>939</u>	<u>(2,276)</u>	<u>5,017</u>	<u>12,697</u>
 At 31 December 2009					
Total financial assets	32,086	2,145	8,562	484	43,277
Total financial liabilities	34,182	1,921	7,242	400	43,745
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net on-balance sheet position	<u>(2,096)</u>	<u>224</u>	<u>1,320</u>	<u>84</u>	<u>(468)</u>
Net off-balance sheet position	246	(272)	(910)	25	(911)
Overall open position	<u>(1,850)</u>	<u>(48)</u>	<u>410</u>	<u>109</u>	<u>(1,379)</u>

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(ii) Interest rate risk

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

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

	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
At 31 December 2010						
Financial assets						
Cash and bank balances with Bank of Uganda	-	-	-	-	28,298	28,298
Deposits and balances due from banking institutions	17,696	-	-	-	-	17,696
Loans and advances to customers	43,482	10,458	11,860	89,490	-	155,290
Government securities	25,376	5,717	26,436	14,959	-	72,488
Total financial assets	86,554	16,175	38,296	104,449	28,298	273,772
Financial liabilities						
Customer deposits	98,918	4,794	50,716	185	65,998	220,611
Deposits and balances due to banking institutions	8,316	5,219	-	-	-	13,535
Other borrowed funds	-	-	84	18,468	-	18,552
Total financial liabilities and equity	107,234	10,013	50,800	18,653	65,998	252,698
Interest sensitivity gap	(20,680)	6,162	(12,504)	85,796		
31 December 2009						
Total financial assets	59,265	15,820	38,956	70,766	38,930	223,737
Total financial liabilities	87,725	11,211	25,659	20,384	78,758	223,737
Interest sensitivity gap	(28,460)	4,609	13,297	50,382		

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

5 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(ii) Interest rate risk

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

The effective interest rates by major currency for monetary financial instruments not carried at fair value through profit or loss at 31 December 2010 and 2009 were in the following ranges:

	2010		2009	
	In Ushs	In FCY	In Ushs	In FCY
Assets				
Amounts due from banks	9%	3%	4%	1%
Loans and advances to customers	19%	9%	19%	10%
Investment securities	8%	0%	10%	0%
Liabilities				
Amounts due to customers	7%	3%	8%	2%
Amounts due to banks	9%	1%	5%	0%
Other borrowed funds	9%	4%	9%	5%

d) Fair value of financial assets and liabilities

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

Fair value hierarchy

IFRS7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. The Bank considers relevant and observable market prices in its valuations where possible.

	Level 1 Ushs millions	Level 2 Ushs millions	Level 3 Ushs millions	Total Ushs millions
31 December 2010				
Financial assets at fair value through profit or loss	<u>25,175</u>	<u>-</u>	<u>-</u>	<u>25,175</u>
31 December 2009				
Financial assets at fair value through profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

At 31 December 2010 and 2009 the Bank did not have financial liabilities measured at fair value.

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

5 FINANCIAL RISK MANAGEMENT (Continued)

d) Fair value of financial assets and liabilities

Financial instruments by category

31 December 2010

	Loans and receivables Ushs millions	Assets at fair value through the profit and loss Ushs millions	Held-to- maturity Ushs millions	Total Ushs millions
Financial assets				
Government securities	-	-	72,488	72,488
Total	-	-	72,488	72,488

	Loans and payables Ushs millions	Liabilities at fair value through the profit and loss Ushs millions	Derivatives Ushs millions	Other financial liabilities at amortised cost Ushs millions	Total Ushs millions
Financial liabilities					
Derivatives at fair value through profit	-	-	3	-	3
Total	-	-	3	-	3

31 December 2009

	Loans and receivables Ushs millions	Assets at fair value through the profit and loss Ushs millions	Held-to- maturity Ushs millions	Total Ushs millions
Financial assets				
Government securities	-	-	48,747	48,747
Total	-	-	48,747	48,747

	Loans and payables Ushs millions	Liabilities at fair value through the profit and loss Ushs millions	Derivatives Ushs millions	Other financial liabilities at amortised cost Ushs millions	Total Ushs millions
Financial liabilities					

31 December 2009

Derivatives at fair value through profit	-	-	14	-	14
Total	-	-	14	-	14

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

e) Capital management

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

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

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

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

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

- Tier 1 capital (core capital): share capital, share premium, prior year retained earnings, current year retained profit, general reserves that are permanent, unencumbered and able to absorb losses, less deductions that include goodwill and other intangible assets, current year's losses, investments in unconsolidated financial subsidiaries, deficiencies in provisions for losses, prohibited loans to insiders, and other deductions as determined by the central bank;
- Tier 2 capital (supplementary capital): revaluation reserves, unencumbered general provisions for bad debts not exceeding 1.25% of risk weighted assets, subordinated debt not exceeding 50% of Tier 1 capital subject to a discount factor, hybrid capital instruments, and a general credit risk reserve. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

Capital Ratios per Financial Institutions Act (FIA) 2004

	Capital amount 2010 Ushs millions	Bank ratio 2010 %	2009 %	FIA 2004 minimum ratio 2010 %	2009 %
Permanent shareholders' equity	8,666	7,508			
Share premium	9,420	6,538			
Prior year retained earnings	8,932	7,431			
Net after-tax profits for the year	3,651	3,321			
Less: unrealized foreign exchange gains	(918)	(425)			
Core capital (tier 1)	<u>29,751</u>	<u>24,373</u>	<u>14.4</u>	<u>15.5</u>	<u>8.0</u>
Unencumbered general provisions	1,559	1,400			
Subordinated term debt	7,007	5,805			
Supplementary capital (tier 2)	<u>8,566</u>	<u>7,205</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital (tier 1 + tier 2)	<u>38,317</u>	<u>31,578</u>	<u>18.5</u>	<u>20.1</u>	<u>12.0</u>

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

e) Capital management (continued)

	Balance sheet amount		Risk weighted amount	
	2010	2009	2010	2009
	Ushs	Ushs	Ushs	Ushs
	millions	millions	millions	millions
Balance sheet assets (net of provisions)				
Cash and balances with Bank of Uganda	28,298	22,596	-	-
Amounts due from other banks	17,696	20,345	5,643	8,959
Amounts due from group companies	3,341	437	3,341	437
Loans and advances to customers	155,290	115,278	155,290	115,278
Investment securities at FV through P&L	25,670	-	-	-
Investment securities held to maturity	46,818	48,747	-	-
Property and equipment	14,280	11,460	14,280	11,460
Intangible assets	1,350	1,021	1,350	1,021
Tax recoverable	617	491	-	-
Other assets	4,604	3,362	4,604	3,362
On balance sheet assets	<u>297,964</u>	<u>223,737</u>	<u>184,508</u>	<u>140,517</u>
Off-balance sheet positions				
Contingents secured by cash collateral	1,774	1,731	-	-
Guarantees	-	-	-	-
Performance bonds	27,810	19,340	13,905	9,670
Letters of credit and acceptances	31,144	15,702	6,229	3,140
Commitments to lend	5,591	7,777	2,796	3,889
Off balance sheet items	<u>66,319</u>	<u>44,550</u>	<u>22,930</u>	<u>16,699</u>
Total risk-weighted assets	<u>364,283</u>	<u>268,287</u>	<u>207,438</u>	<u>157,216</u>

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

	2010 Ushs millions	2009 Ushs millions
6 INTEREST INCOME		
Loans and advances	22,424	17,918
Government securities	5,353	5,233
Cash and short term funds	204	627
	<hr/> <hr/> <hr/>	<hr/> <hr/> <hr/>
	27,981	23,778
Analysed by asset classification:		
Held to maturity investments	5,353	5,233
Loans and receivables	22,628	18,545
	<hr/> <hr/> <hr/>	<hr/> <hr/> <hr/>
	27,981	23,778
7 INTEREST EXPENSE		
Customer deposits	8,595	7,322
Deposits by banks	776	569
Borrowed funds	1,397	1,696
Other	294	407
	<hr/> <hr/> <hr/>	<hr/> <hr/> <hr/>
	11,062	9,994
8 FEE AND COMMISSION INCOME		
Commission income	113	134
Fees and commission - Operations	4,645	4,435
Fees and commission - Credit	1,433	932
Fees and commission - Trade Finance	1,847	1,480
	<hr/> <hr/> <hr/>	<hr/> <hr/> <hr/>
	8,038	6,981
9 FEE AND COMMISSION EXPENSE		
Credit fees paid	294	13
Fees and commission - banks	196	186
Fees and commission - brokerage	678	625
Trade Finance fees paid	-	12
	<hr/> <hr/> <hr/>	<hr/> <hr/> <hr/>
	1,168	836

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

	2010 Ushs millions	2009 Ushs millions
10 FOREIGN EXCHANGE GAINS		
Realised foreign exchange gains	1,204	1,877
Unrealised foreign exchange gains	918	425
	<hr/>	<hr/>
	<u>2,122</u>	<u>2,302</u>
11 STAFF COSTS		
Salaries and wages	7,568	6,841
NSSF contributions	649	92
Defined contribution scheme contributions	118	505
Other staff costs	1,171	870
	<hr/>	<hr/>
	<u>9,506</u>	<u>8,308</u>
12 OPERATING EXPENSES		
Staff costs (note 11)	9,506	8,308
Depreciation	2,098	1,494
Amortisation of intangible asset	450	380
Amortisation of operating lease prepayments	25	25
Auditors' remuneration	92	73
Directors' emoluments - Executive	164	163
Rent and rates	2,001	1,487
Communication expenses	967	954
Repairs and maintenance	1,165	816
Management service costs	937	374
Marketing costs	680	748
Donations and subscriptions	165	71
Security	652	491
Other administrative expenses	311	187
Deposit protection fund contribution	239	182
Travelling expenses	374	277
Printing and stationery	516	468
Insurance costs	215	162
Legal and professional fees	126	155
Write offs	566	102
	<hr/>	<hr/>
	<u>21,249</u>	<u>16,917</u>

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

		2010 Ushs millions	2009 Ushs millions
13 TAXATION			
(a) Taxation (credit)/charge			
Current taxation - current year	802	784	
Deferred taxation (credit)/charge - current year	(997)	113	
	<hr/>	<hr/>	
	<hr/>	<hr/>	
	(195)	897	
(b) Reconciliation of taxation (credit)/charge			
Accounting profit before taxation	<hr/>	<hr/>	
	3,456	4,218	
Tax at applicable rate of 30%	1,037	1,265	
Income not subject to tax	(1,810)	(1,797)	
Tax effect of non-deductible items	317	358	
Final tax on investments	803	785	
Prior year deferred tax under provision	(542)	286	
	<hr/>	<hr/>	
	<hr/>	<hr/>	
Taxation (credit)/charge	(195)	897	
(c) Tax recoverable			
As at 1 January	491	359	
Current tax charge	(802)	(784)	
Tax paid	928	916	
	<hr/>	<hr/>	
	<hr/>	<hr/>	
Balance as at 31 December	617	491	
	<hr/>	<hr/>	
14 CASH AND BALANCES WITH BANK OF UGANDA			
Cash on hand	13,035	12,551	
Balances with BOU (Cash ratio requirement)	15,263	10,045	
	<hr/>	<hr/>	
	<hr/>	<hr/>	
	28,298	22,596	

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

	2010 Ushs millions	2009 Ushs millions
15 HELD TO MATURITY INVESTMENTS		
Deposits and balances due from other banking institutions		
Balances due from other banking institutions	16,695	13,596
Deposits with other banking institutions	1,001	6,749
	<hr/>	<hr/>
	17,696	20,345
The deposits with other banking institutions are interest bearing.		
16 GOVERNMENT SECURITIES		
(a) HELD TO MATURITY INVESTMENTS		
At amortised cost		
Treasury bills		
Face value		
Maturing within 90 days	496	803
Maturing after 90 days	16,700	32,200
	<hr/>	<hr/>
Unearned interest	17,196	33,003
	(1,058)	(1,447)
	<hr/>	<hr/>
	16,138	31,556
Treasury bonds		
Maturing within 90 days	-	-
Maturing after 90 days	34,108	19,267
	<hr/>	<hr/>
Unearned interest	34,108	19,267
	(3,133)	(2,377)
	<hr/>	<hr/>
	30,975	16,890
Listed debt securities		
Maturing after 90 days	200	301
	<hr/>	<hr/>
	47,313	48,747

BANK OF AFRICA - UGANDA LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

	2010 Ushs millions	2009 Ushs millions
16 GOVERNMENT SECURITIES (Continued)		
(b) HELD FOR TRADING INVESTMENTS		
<i>At fair value through profit and loss account</i>		
Government securities		
Maturing after 90 days	25,175	-
Unearned interest	-	-
	25,175	-
Total Government securities		
Investment securities - held to maturity (a)	47,313	48,747
Investment securities - held for trading (b)	25,175	-
	72,488	48,747
(c) Derivatives at fair value through profit or loss		
The Bank uses the following derivative instruments for non-hedging purposes:		
Currency forwards held represent commitments to purchase foreign and domestic currency.		
Currency swaps held are commitments to exchange one set of cash flows for another and result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for lending activities.		
The derivative instruments held become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The derivatives held by the Bank are classified as financial assets at fair value through the profit or loss. The fair values of derivative financial instruments held are set out below.		
	2010 Ushs millions	2009 Ushs millions
Currency swaps	3	14

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

	2010 Ushs millions	2009 Ushs millions
17 LOANS AND ADVANCES TO CUSTOMERS		
a) Analysis of loan advances to customers by category:		
Term loans - staff	2,049	1,589
- other	125,812	86,914
Overdrafts	29,813	28,204
Discounted bills	84	65
	Gross loans and advances	116,772
<i>Provisions for impairment of loans and advances</i>		
Specific allowance (note 18)	(2,468)	(1,494)
	Net loans and advances	115,278
Included in net advances are loans and advances amounting to Ushs 1,708 (2009 – Ushs 1,294 million) net of specific provisions, which have been classified as non-performing.		
b) Credit Concentration above 25% of Core Capital		
As at 31 December 2010, the bank had no borrowers with advances or credit facilities exceeding 25% of its core capital.		
c) The maturity analysis of advances to customers is as follows:	2010 Ushs millions	2009 Ushs millions
Within three months	53,939	43,931
Between three and six months	3,386	2,458
Over six months	100,433	70,383
	Gross advances to customers	116,772
d) Gross advances to customers by industry composition:		
Trade and commerce	50,336	38,851
Agriculture	4,709	3,580
Manufacturing	4,932	2,892
Transport & communication	10,283	8,527
Building and construction	11,640	11,836
Personal, service industry and others	75,858	51,086
	116,772	116,772

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

18 PROVISION FOR IMPAIRED LOANS AND ADVANCES

(a) Movement in provision

	Individually assessed Ushs millions	Collectively assessed Ushs millions	Total Ushs millions
2009			
At 1 January	513	506	1,019
Provision for loan impairment	1,467	190	1,657
Amounts recovered during the year	(837)	-	(837)
Loans written off during the year as uncollectible	(345)	-	(345)
At 31 December	<u>798</u>	<u>696</u>	<u>1,494</u>
2010			
At 1 January	798	696	1,494
Provision for loan impairment	5,216	281	5,497
Amounts recovered during the year	(4,087)	-	(4,087)
Loans written off during the year as uncollectible	(436)	-	(436)
At 31 December	<u>1,491</u>	<u>977</u>	<u>2,468</u>
		2010 Ushs millions	2009 Ushs millions

(b) Impairment losses charged to profit or loss

Provision for loan impairment (note a)	5,497	1,657
Amounts recovered during the year (note a)	(4,087)	(837)
	<u>1,410</u>	<u>820</u>

(c) Statutory reserve

Analysis as per Bank Of Uganda guidelines

Specific provisions

Specific provision as per BOU guidelines	2,092	1,091
Balance as per IAS 39 (note a)	(2,468)	(1,494)
At 31 December	<u>(376)</u>	<u>(403)</u>

At 1 January

Transfer of excess to/(from) statutory reserves

At 31 December

General provision

At 1 January	(1,400)	(835)
Transfer to the regulatory reserve	(159)	(565)
At 31 December	<u>(1,559)</u>	<u>(1,400)</u>

Total balance of statutory reserve as at 31 December

(1,559) (1,400)

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

			2010 Ushs millions	2009 Ushs millions
19 OTHER ASSETS				
Accounts receivable and			1,903	1,762
Items in transit			333	184
Stationery stocks			207	230
Other			247	61
			<hr/>	<hr/>
			2,690	2,237
20 PROPERTY AND EQUIPMENT				
	Buildings Ushs millions	Motor vehicles Ushs millions	Fixtures, fittings and equipment Ushs millions	Work In Progress Ushs millions
				Total Ushs millions
COST				
At 1 January 2009	3,470	305	6,666	373
Additions	-	121	3,655	623
Disposals	-	(40)	(85)	-
Transfer from WIP	-	-	370	(370)
Write-offs	-	-	(5)	(3)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	3,470	386	10,601	623
At 1 January 2010	3,470	386	10,601	623
Additions	-	1	3,844	1,321
Disposals	-	(28)	(12)	-
Transfer to intangible assets	-	-	388	(623)
Write-offs	-	-	(11)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	3,470	359	14,810	1,321
DEPRECIATION				
At 1 January 2009	174	41	1,960	-
Charge for the year	72	89	1,333	-
Eliminated on disposal	-	(30)	(19)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	246	100	3,274	-
At 1 January 2010	246	100	3,274	-
Charge for the year	73	96	1,929	-
Eliminated on disposal	-	(22)	(6)	-
Depreciation on write-offs	-	-	(10)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	319	174	5,187	-
NET BOOK VALUE				
At 31 December 2010	3,151	185	9,623	1,321
At 31 December 2009	3,224	286	7,327	623

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

		2010 Ushs millions	2009 Ushs millions
21 OPERATING LEASE PREPAYMENTS			
COST			
At 1 January & 31 December		<u>1,242</u>	<u>1,242</u>
AMORTISATION			
At 1 January		117	92
Charge for the year		25	25
		<u>142</u>	<u>117</u>
At 31 December		<u>142</u>	<u>117</u>
NET BOOK VALUE			
At 31 December		<u>1,100</u>	<u>1,125</u>
22 INTANGIBLE ASSET			
COST			
At 1 January		1,911	1,880
Additions: Computer Software		544	31
Transfersa from Work in Progress (note 20)		235	-
		<u>2,690</u>	<u>1,911</u>
AMORTISATION			
At 1 January		890	510
Charge for the year		450	380
		<u>1,340</u>	<u>890</u>
At 31 December		<u>1,350</u>	<u>1,021</u>
NET BOOK VALUE			
At 31 December		<u>1,350</u>	<u>1,021</u>

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

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

	2010 Ushs millions	2009 Ushs millions
23 CUSTOMER DEPOSITS		
Current and demand deposits	79,892	66,709
Savings accounts	49,219	33,607
Fixed deposit accounts	89,709	57,492
Margin deposits	1,791	2,020
	<hr/> <hr/> <hr/>	<hr/> <hr/> <hr/>
	220,611	159,828
24 Sectoral analysis		
Banks and financial institutions	36,035	32,633
Private enterprises and individuals	44,982	28,900
Government and parastatals	6,169	4,646
	<hr/> <hr/> <hr/>	<hr/> <hr/> <hr/>
	87,186	66,179
25 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS		
Items in course of collection	678	482
Term deposits	12,857	13,684
	<hr/> <hr/> <hr/>	<hr/> <hr/> <hr/>
	13,535	14,166
The deposits with other banking institutions are interest bearing.		
26 OTHER BORROWED FUNDS		
EIB - Uganda APEX Private Sector Loan Scheme	287	628
EIB - Private Enterprise Finance Facility	6,591	8,920
FMO - Term Facility	3,463	4,909
PROPARCO – Subordinated loan	7,007	5,805
BOU Agricultural Credit Facility	1,204	-
	<hr/> <hr/> <hr/>	<hr/> <hr/> <hr/>
	18,552	20,262

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

BANK OF AFRICA - UGANDA LTD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)****26 OTHER BORROWED FUNDS (Continued)**

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

The FMO Term Facility is a line of credit granted to the Bank to on-lend to eligible sub-borrowers with matching funds provided by the bank. These funds attract a floating rate of interest equivalent to the weighted average deposit rate of banks in Uganda as published by the Central Bank plus a margin. These funds have a tenor of five years.

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

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.

	2010 Ushs millions	2009 Ushs millions
27 OTHER LIABILITIES		
Bills payable	820	533
Creditors	1,020	499
Accruals	1,668	1,425
Other	8	6
	<hr/> <u>3,516</u>	<hr/> <u>2,463</u>

28 DEFERRED INCOME TAX LIABILITY

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

	2010 Ushs millions	2009 Ushs millions
Accelerated capital allowances	(1,170)	(888)
Tax losses brought forward	1,947	658
Provisions for loan impairment	113	(69)
Other provisions	200	116
Unrealised translation differences	(276)	-
	<hr/> <u>814</u>	<hr/> <u>(183)</u>

The movement on the deferred income tax liability account is as follows:

At 1 January	(183)	(70)
Income statement charge/(credit) - current year (note 13)	997	(113)
	<hr/>	<hr/>
At 31 December	<hr/> <u>814</u>	<hr/> <u>(183)</u>

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

29 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares Ushs millions	Share premium Ushs millions
2009			
Balance at 1 January	6,278	6,278	3,738
Issue of shares	1,230	1,230	2,800
Balance at 31 December	7,508	7,508	6,538
2010			
Balance at 1 January	7,508	7,508	6,538
Issue of shares	1,158	1,158	2,882
Balance at 31 December	8,666	8,666	9,420

The total authorised number of ordinary shares is 10 million (2009: 10 million) with a par value of Shs 1,000 per share.

In 2010 the Board approved additional rights issues of 1,157,925 shares (2009: 1,229,784 shares) at a price of Ushs 3,489 (2009: Ushs 3,277). All the shares were paid up by year end.

30 BANK SHAREHOLDING

The Bank shareholders are comprised of the following:

	Holding	Country of incorporation
Bank of Africa – Kenya	50.01%	Kenya
Aureos East Africa Fund LLC	21.88%	Mauritius
Netherlands Development Finance Company (FMO)	17.51%	The Netherlands
Central Holdings Uganda Ltd.	9.39%	Uganda
African Financial Holding (AFH) - Indian Ocean	1.21%	Mauritius
	100.00%	

31 DIVIDENDS

The proposed dividend for the year is Shs 211 per share amounting to Shs 1,825 million (2009: dividend per share of Shs 221 amounting to Shs 1,661 million). During the year, final dividends of Shs 1,661 million were paid in respect of the year ended 31 December 2009. No interim dividends were paid in respect of the year ended 31 December 2010. The payment of dividends is subject to withholding tax at 15% or the rate specified under an applicable double tax agreement.

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

32 ANALYSIS OF CASH AND CASH EQUIVALENTS

	2010 Ushs millions	2009 Ushs millions
Cash and Balances with Bank of Uganda (note 14)	28,298	22,596
Less: cash reserve requirement (see below)	(23,148)	(16,589)
Government securities -maturing within 90 days	496	803
Placements with other banks (note 15)	17,696	20,345
Amounts due from group companies (note 34)	3,341	437
	<hr/>	<hr/>
	26,683	27,592
	<hr/>	<hr/>

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

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

33 EARNINGS PER SHARE

	2010 Ushs millions	Restated 2009 Ushs millions
Profit attributable to equity holders of the bank (Ushs millions)	3,651	3,321
Weighted average number of ordinary shares in issue (thousands)	<hr/> 8,071	<hr/> 6,841
	<hr/>	<hr/>
Basic earnings per share (expressed in Ushs per share)	452	485
	<hr/>	<hr/>

There were no potentially dilutive shares outstanding at 31 December 2010 (2009: Nil)

BANK OF AFRICA - UGANDA LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)**

34 RELATED PARTY BALANCES	2010 Ushs millions	2009 Ushs millions
a) Amounts due from group companies		
Bank of Africa Kenya	952	314
Bank of Africa Tanzania	18	12
Other related parties	2,371	111
	<hr/>	<hr/>
	3,341	437
b) Amounts due to group companies:		
Bank of Africa Kenya	6,528	622
Bank of Africa Tanzania	2,761	1
Other related parties	230	-
	<hr/>	<hr/>
	9,519	623
c) Related party balances		
Deposits from directors and shareholders	16	57
d) Related party transactions		
<u>Directors' remuneration</u>		
Directors' fees	164	163
Other emoluments	383	812
	<hr/>	<hr/>
	547	975
<u>Key management compensation</u>		
Salaries and short-term benefits	884	1,360
Terminal benefits	63	67
	<hr/>	<hr/>
	947	1,427

BANK OF AFRICA - UGANDA LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

35 OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENT

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	2010 Ushs millions	2009 Ushs millions
Acceptances and letters of credit	31,144	15,702
Guarantee and performance bonds	29,584	21,071
	<hr/>	<hr/>
	<hr/>	<hr/>
	60,728	36,773

Non-trade contingent liabilities

There were 8 outstanding legal proceedings against the bank as at 31 December 2010 (2009: 2). In the opinion of the directors, after taking legal advice from the company lawyers, the outcome of these actions will not give rise to any significant loss.

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 31st December, these included;	2010 Ushs millions	2009 Ushs millions
Approved loans not disbursed	<hr/>	<hr/>
	5,591	7,777
	<hr/>	<hr/>