Shaping Africa's
future.

Uganda

2008 - ANNUAL REPORT

BANK OF AFRICA
UGANDA
GROUPE BANK OF AFRICA

BANK OF AFRICA - UGANDA

The BANK OF AFRICA Group believes in and contributes to Africa's future.

The Banks in the BOA Group contribute to children's education through their tailored services.

They see to the needs of the younger generation by offering products specifically designed to accompany their early steps in life.

New products are continuously being created to accompany Africa's young people in their projects.

Every year for over 25 years the Group has hired and trained young graduates, some of whom now occupy positions of the highest responsibility in its Banks.

For the past 12 years, the BANK OF AFRICA Foundation has promoted initiatives in schools that aim in particular to improve the living conditions of the most disadvantaged children.

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Group Banks and Subsidiaries in 2008

11 COMMERCIAL BANKS

BOA-BENIN	9	◆ Cotonou	8	▲	Azové, Abomey-Calavi, Bohicon, Dassa-Zoumé, Djougou, Parakou, Porto-Novo, Ouando (Porto-Novo).
BOA-BURKINA FASO	7	◆ Ouagadougou	5	▲	Bobo-Dioulasso, Fada, Koudougou, Koupéla, Pouytenga.
BOA-CÔTE D'IVOIRE	9	◆ Abidjan	2	▲	Bouaké, San Pedro.
BOA-KENYA	4	◆ Nairobi	3	▲	Kisumu, Mombasa, Thika.
BOA-MADAGASCAR	14	◆ Antananarivo	41	▲	Spread over the whole country
BOA-MALI	7	◆ Bamako	6	▲	Kayes, Koulikoro, Koutiala, Nioro du Sahel, Segou, Sikasso.
			2	▲ (local)	Morila (Sikasso), Sadiola (Kayes).
			1	● (representative)	Paris.
BOA-NIGER	4	◆ Niamey	6	▲	Agadez, Dosso, Gaya, Maradi, Tahoua, Tillaberi.
BOA-SENEGAL	8	◆ Dakar	3	▲	Ngor, Saly Portudal, Touba.
BOA BANK-TANZANIA	5	◆ Dar es Salaam	2	▲	Arusha, Mwanza.
BOA-UGANDA	7	◆ Kampala	5	▲	Arua, Jinja, Lira, Mbale, Mbarara.
BCB (BANQUE DE CRÉDIT DE BUJUMBURA)	3	◆ Bujumbura	9	▲	Gihofi, Giteba, Kayanza, Kirundo, Muyinga, Ngozi, Rumonge, Rugombo, Ruyigi.
GIE GROUPE BANK OF AFRICA	1	● (representative) Paris			

1 HOUSING FINANCE BANK

BANQUE DE L'HABITAT DU BENIN	1	◆ Cotonou

3 LEASE FINANCE COMPANIES

ÉQUIPBAIL-BENIN	● Cotonou
ÉQUIPBAIL-MADAGASCAR	● Antananarivo
ÉQUIPBAIL-MALI	● Bamako

1 FIRM OF STOCKBROKERS

ACTIBOURSE	● Cotonou	1	● (representative) Abidjan : Liaison office

2 INVESTMENT COMPANIES

AGORA	● Abidjan
ATTICA	● Cotonou

1 INFORMATION TECHNOLOGY SUBSIDIARY

AISSA	● Cotonou

◆ Branches ▲ Regional branches ▲ Local branch ● Head office ● Representative office or liaison office

Group strong points

- Quality of customer service
- Dynamism and availability of staff
- Financial solidity
- Cohesive network
- A wide range of financing solutions
- Expertise in financial engineering
- Strong partners

A strong network

- More than 2,600 people, at your service.
- Major holding in several life insurance companies.
- More than 170 dedicated operating and production sites in 12 countries, excluding affiliated partners.
- A continuously expanding fleet of Automated Teller Machines and Electronic Payment Terminals.
- Over 600,000 bank accounts.

A wide and varied offer

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

GROUP
TOTAL TURNOVER IN 2008

± 235 million €

Strategic partners

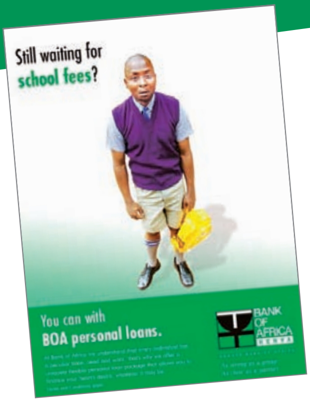
Including:

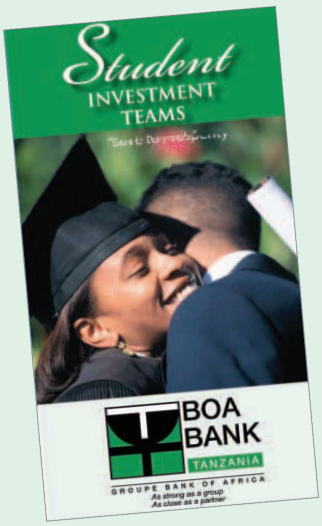
- BANQUE MAROCAINE DU COMMERCE EXTÉRIEUR (BMCE BANK),
- PROPARCO,
- INTERNATIONAL FINANCE CORPORATION (IFC - WORLD BANK GROUP),
- WEST AFRICAN DEVELOPMENT BANK (BOAD),
- NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO),
- BELGIUM INVESTMENT COMPANY FOR DEVELOPING COUNTRIES (BIO),
- and investment fund AUREOS.

Unique experience in Africa

- Continuous development for almost 30 years.

Main Products of BOA-UGANDA





	BOA ENGLISH SPEAKING NETWORK		BOA-UGANDA
Accounts	Current Account	(Local & Foreign Currency)	■
	Remunerated Current Account		■
Investment Products	Call Deposits Account		■
	Chama Account		
	Children Savings Account	"Watoto"	■
	Family Savings Account		
	Ero Savings Account		■
	Gold Plus Account		■
	Investment Plan Account		
	Ordinary Savings Account		■
	Premium Plus Fixed Deposit		
	Schools Fees Account		■
	Senior Citizen Fixed Deposit		
	SESAME Savings Account		■
	Student Investment Teams		
	Term Deposit		■
Electronic Banking	BOA On-line		■
	B-Web		
	SESAME ATM Card		■
Loans & Advances	2-in-1 Loan		■
	Bridging Overdraft		■
	Instant Cash		■
	Personal Loans		■
	Salary Advance		
	Schools Fees Loan		
	Super Kikapu		■
BOA Company Services	BOA-UGANDA Ltd also offers a wide range of products and services to Corporates, SMEs, Organizations, Institutions, Professionals and Individuals.		■
Transfers and foreign exchanges	Foreign Exchange		■
	Moneygram		■
	Travellers Cheques		
	Western Union		
Complementary Products & Services	Banker's Cheques		■

Annual Report

2008

A child is born. What their life becomes will depend on them,
and their whole environment.

© Sarah Bernabé

Comments from the Managing Director

Despite the difficulties associated with the World's financial and now, economic crisis, Uganda continued to record high growth rates with real Gross Domestic Product (GDP) at 8.7% during the fiscal year 2007/08. Economic activity in the first half of 2008 was particularly robust, thanks to the construction and services sectors. The second half, on the other hand, was relatively weak and characterized by rising inflation - above 14%, a worsening trade deficit and devaluation of the Shilling. It is worthy to note that over four years, the Shilling appreciated against the US dollar. In September 2008, however, there was a marked shift in this trend as the Shilling depreciated markedly against the USD on account of the global financial crisis. While monetary policy continued to focus on price stability, money supply, interest rates and the fiscal deficit continued to increase.

Uganda's banking sector continued on its growth and modernization projectile, with financial deepening largely driven by increased competition from 5 newly licensed financial institutions. In addition, a Credit Reference Bureau was licensed to minimise information asymmetry among borrowers and banks. Improved risk management and central bank supervision ensured that the ratio of non-performing assets remained low.

Against this backdrop, BANK OF AFRICA - UGANDA (BOA-UGANDA) further strengthened its presence in the market by opening five new outlets, two in Kampala, and the rest spread across Northern, Eastern and Western Uganda. One of the existing branches in Kampala was also expanded and refurbished. To further support customer financing needs, the Bank signed up to a new line of credit with the European Investment Bank and concluded a subordinated loan with PROPARCO. To further reinforce the Bank's capital base, shareholders increased their investment in the bank with a Shs 4.7 billion rights issue. As part of the Bank's staff development strategy, several staff members embarked on management development and risk management training programmes. We also encouraged the formulation and implementation of personal development plans for each staff member.

Consequently, BOA-UGANDA's asset footing increased by 70% to Shs 173 billion with notable growth in loans and advances, investment in securities and short term funds. Customer deposits increased by 63% to Shs 128 billion, while the Bank's lines of credit increased from Shs 3 billion to Shs 17 billion. Net profit for the year rose by 78% to Shs 3.7 billion mainly attributed to increases in net interest income and fees and commissions.

As part of our commitment to our community, the Bank was involved in several community programmes including support for initiatives aimed at improving small and medium enterprise business practices, and a blood donation drive.

The slow down in economic growth and increased competition in the industry notwithstanding, the Bank will continue to aim at bringing its services closer to communities by further expanding its footprint in 2009. We remain committed to continuous improvement in service delivery and development of new products suited to customer needs, with that personal touch.

The BOA-UGANDA team is grateful to all its stakeholders, most especially our customers who continue to express their loyalty and confidence in us. We cherish the support all of you have generously given to the Bank during the year and assure you of our continued commitment to support your growth as we meet the challenges of 2009.

Kwame AHADZI
Managing Director

Key Facts 2008

January

- Launched Arua Branch and completed expansion of Ndeeba Branch.
- Increase of UGX 1.3 billion of Bank's capital.

May

- Organization and participation in the Groupe BANK OF AFRICA network management meeting, in Kampala.

June

- Opened Ntinda Branch and Nalukolongo mini-Branch.

September

- Opened Mbale and Lira Branches.
- Signed a USD 3 million subordinated term loan with PROPARCO.

October

- Increase of UGX 3.4 billion of Bank's capital.

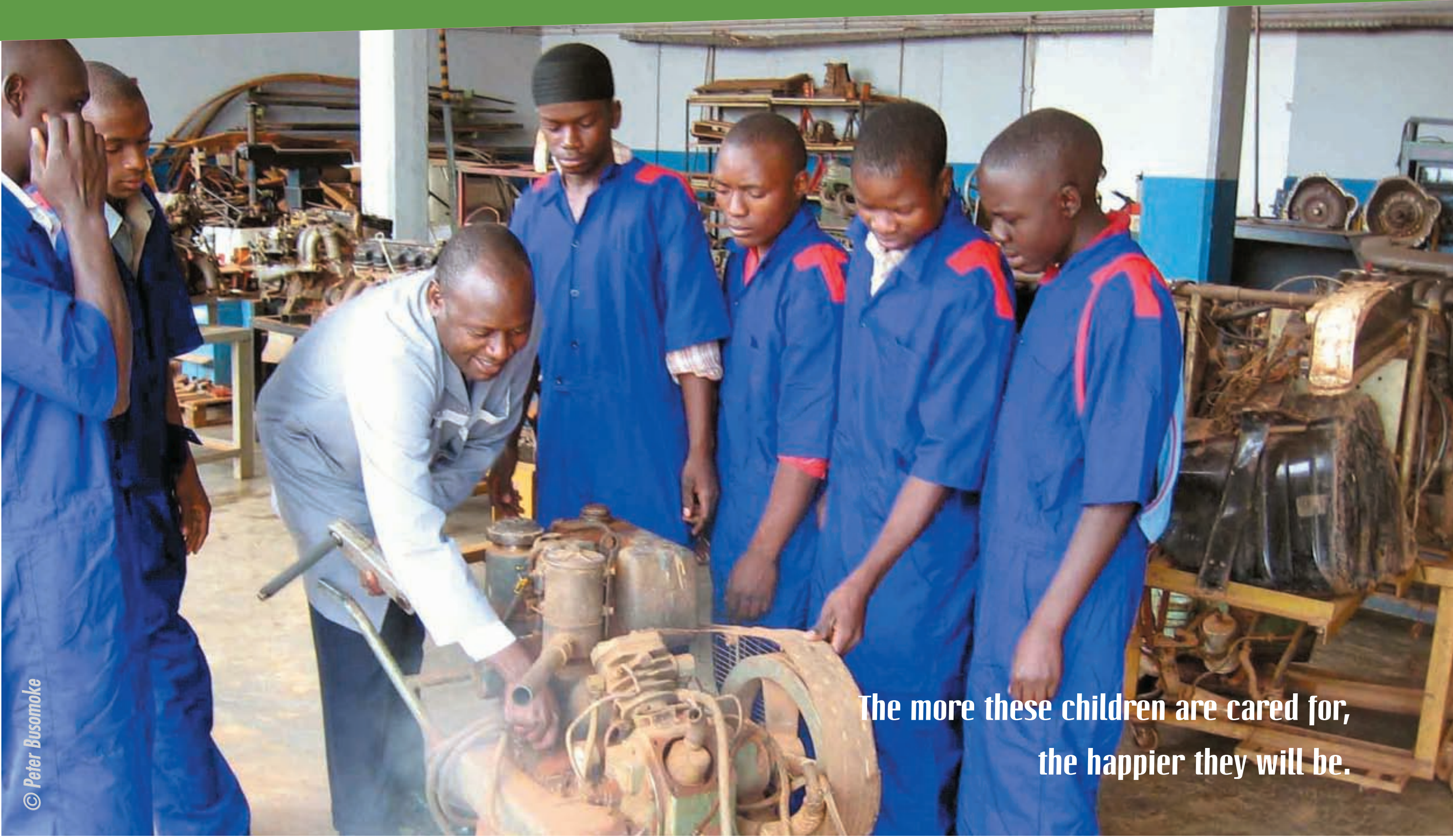
November

- Opened Mbarara Branch and completed refurbishment and expansion of Kampala Road Branch.

December

- Participation in the Groupe BANK OF AFRICA network Directors' meeting, in Nairobi.

Key Figures 2008



Activity

Deposits *	127,595
Loans *	84,453

Income

Operating income *	18,364
Operating expenses *	13,527
Profit before tax *	4,566

Structure

Total Assets *	173,156
Number of employees	192

* in UGX million
(EUR 1 = UGX 2,692.53)

Corporate Social Responsibility Initiatives 2008

Bank CSR Strategy

While BOA-UGANDA's major contribution to society is its banking activities, the Company demonstrates its concern for the Ugandan society by giving support to initiatives that are consistent with its business objectives and have a positive impact on society. Our support to charitable and community initiatives focuses on programs that we believe can have a meaningful impact on our organization and our communities. We help to make the communities in which we operate stronger by supporting initiatives that achieve a positive and broad impact on education, the environment, health and welfare, arts and culture and economic development in our market areas.

A Business Consultation Session in progress during a Business Empowerment Clinic. © BOA-UGANDA Ltd

Blood Donation by Bank Staff and Customers. © BOA-UGANDA Ltd

The happier they are, the more they will thrive.

As an organization we are committed to:

- Reinvesting a portion of our annual net income to support worthwhile causes.
- Being a model of service to our communities by participating in initiatives that have a meaningful impact on our organization and the society.
- Encouraging staff to become involved in community initiatives both through their own efforts and through a range of programmes managed by the Bank.

2008 Activities

The bank continued to support the community through a number of initiatives. Some of the activities included the following:

Sponsorship of the Small Business Club of Uganda

BOA-UGANDA supported the launch of the Small Business Club in Uganda. The Small Business Club offers SME's the opportunity to create business linkages both within and outside Uganda.

The launch attracted 120 SMEs. Apart from giving BOA-UGANDA more visibility in the SME sector, the Small Business Club has created opportunities for the Bank to access new customers. The Bank also offered one year free subscription to all the SME's which attended the launch.

Sponsorship of Business Empowerment Clinics

In partnership with the Private Sector Foundation of Uganda, BOA-UGANDA sponsored five Business Empowerment Clinics (BECs) for SMEs in the up country locations of Arua, Lira, Mbale and Mbarara. Each clinic targeted 100 current and potential clients. The BECs helped to improve business practices of the participating clients through sharing experiences, improving the ability of SME's to write bankable proposals and creating business linkages.

Blood Donation by Bank Staff and Customers

Uganda needs at least 180,000 units of blood per year to cater for the increasing demand for blood in hospitals. Although blood collection has over the years increased from 7,000 units in 1989 to 150,000 in 2008, the country still experiences a shortfall of 30,000 units of blood annually, leaving millions of Ugandans' lives at stake. In October 2008, BOA-UGANDA partnered with Uganda Blood Transfusion Services to carry out a blood donation drive at the Bank's Head office on Jinja Road. This initiative targeted the Bank's staff and its customers.

Over 80 units of blood were collected during the activity and this went towards saving the lives of at least 300 children who are in dare need of blood.

Donation to Lira Babies Home

As part of the launch activites for its Lira Branch, the Bank donated an assortment of day-to-day children necessities to Lira Babies home. This initiative was spear headed by the staff of Lira Branch who visited the home and realized the dire needs of the babies. The donation added to the efforts and contributions of other organizations and individuals who have supported this Babies' home since its inception.

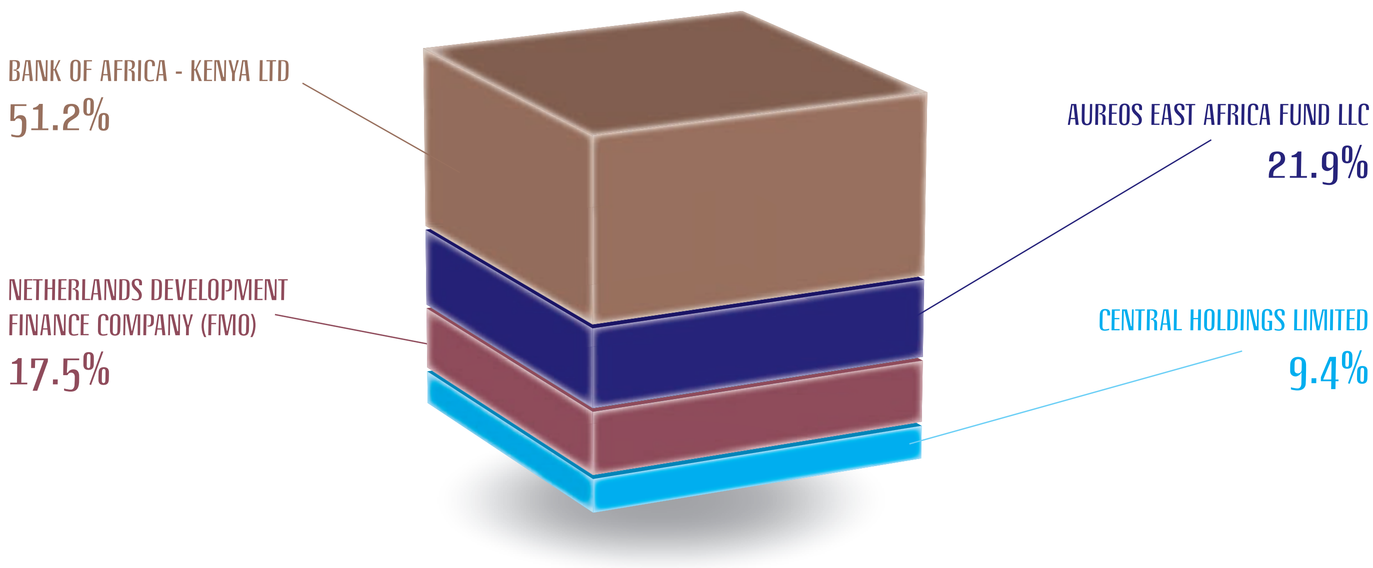
Board of Directors

The Directors who held office during the year and at the date of this report were:

- John CARRUTHERS, Chairman
- Kwame AHADZI, Managing Director
- Samuel MAKOME
- Paul DERREUMAUX
- Vincent de BROUWER
- Mohan KIWANUKA
- Richard CARTER
- Shakir MERALI

Capital

The authorised share capital of the Bank is UGX 10,000,000,000 dividend into 10,000,000 ordinary shares with par value of UGX 1,000 each.
The issued share capital is UGX 6,278,435,000 at a premium of UGX 3,737,560,000.
The following was the Bank's shareholding structure as at 31 December 2008:



Auditors

PricewaterhouseCoopers

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2008, which disclose the state of affairs of BANK OF AFRICA - UGANDA Limited ("the Bank").

Principal activities

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

Results and dividend

The net profit for the year of Shs 3,714 million (2007: Shs 2,092 million) has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 1,726 million (2007: Shs 681 million).

Directors

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

John CARRUTHERS	Chairman
Kwame AHADZI	Managing Director
Samuel MAKOME	Executive Director (Appointed 8 July 2008, resigned 14 January 2009)
Christopher KIGENYI	Executive Director (Resigned 8 July 2008)
Vincent de BROUWER	Non-executive Director
Mohan KIWANUKA	Non-executive Director
Paul DERREUMAUX	Non-executive Director
Shakir MERALI	Non-executive Director
Richard CARTER	Non-executive Director

Auditor

The Bank's auditor, PricewaterhouseCoopers, has indicated its willingness to continue in office in accordance with the provisions of Section 159(2) of the Ugandan Companies Act and Section 62(1) of the Financial Institutions Act, 2004.

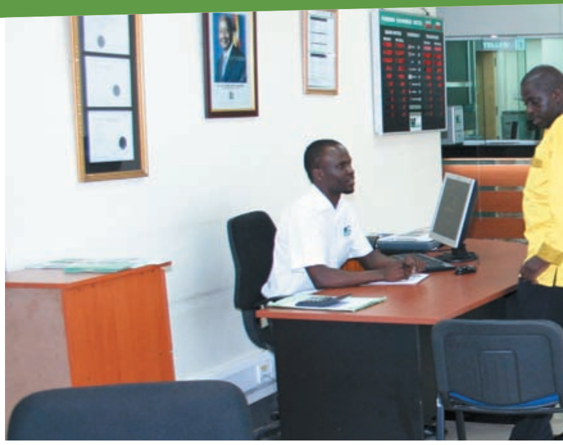
By order of the Board

Stephen BEYANGA
Secretary

17 March 2009

Report and Financial Statements

The Ntinda Branch, in Kampala. © BOA-UGANDA



Staff attending to a customer at the Ntinda Branch. © BOA-UGANDA

Statement of Directors' Responsibilities

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

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

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

K. AHADZI	M. KIWANUKA	J. CARRUTHERS
Managing Director	Director	Chairman

17 March 2009

The Main Branch Banking Hall. © BOA-UGANDA

Report of the independent auditors

to the Members of BANK OF AFRICA - UGANDA Ltd.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of BANK OF AFRICA - UGANDA Ltd. set out on pages 18 to 53. These financial statements comprise the balance sheet at 31 December 2008, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Bank's financial affairs at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Ugandan Companies Act and the Financial Institutions Act 2004.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

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

PricewaterhouseCoopers

Certified Public Accountants

Kampala, 17 March 2009

Financial Statements
for the year ended 31 December 2008

Financial Statements

PROFIT AND LOSS ACCOUNT

	NOTES	2008 SHS MILLIONS	2007 SHS MILLIONS
INTEREST INCOME	5	17,226	9,986
INTEREST EXPENSE	6	(6,396)	(2,806)
NET INTEREST INCOME		**10,830**	**7,180**
FEE AND COMMISSION INCOME		6,183	4,668
FEE AND COMMISSION EXPENSE		(683)	(261)
NET FEE AND COMMISSION INCOME		**5,500**	**4,407**
NET FOREIGN EXCHANGE INCOME		1,873	951
OTHER OPERATING INCOME		160	204
OPERATING INCOME		**18,364**	**12,742**
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	13	(270)	(942)
OPERATING EXPENSES	7	(13,527)	(9,306)
PROFIT BEFORE INCOME TAX		**4,566**	**2,494**
INCOME TAX EXPENSE	9	(852)	(402)
PROFIT FOR THE YEAR		**3,714**	**2,092**
BASIC AND DILUTED EARNINGS PER SHARE (SHS)	**31**	**696**	**490**
DIVIDEND PER SHARE (SHS)	**30**	**275**	**150**

BALANCE SHEET

	NOTES	AT 31 DECEMBER 2008 SHS MILLIONS	RESTATED AT 31 DECEMBER 2007 SHS MILLIONS
ASSETS			
CASH AND BALANCES WITH BANK OF UGANDA	10	22,010	14,497
AMOUNTS DUE FROM OTHER BANKS	11	16,798	3,084
AMOUNTS DUE FROM GROUP COMPANIES	28	2,341	35
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	12	-	15
LOANS AND ADVANCES TO CUSTOMERS	13	84,453	54,608
INVESTMENT SECURITIES:			
- AT FAIR VALUE THROUGH PROFIT OR LOSS	14	785	-
- HELD-TO-MATURITY	14	33,060	17,080
PROPERTY AND EQUIPMENT	15	8,639	5,879
INTANGIBLE ASSETS	16	1,370	1,662
CURRENT INCOME TAX RECOVERABLE	17	359	1,081
OTHER ASSETS	19	3,341	3,924
TOTAL ASSETS		**173,156**	**101,865**
LIABILITIES			
CUSTOMER DEPOSITS	20	127,595	78,325
AMOUNTS DUE TO BANKS	21	3,133	5,243
AMOUNTS DUE TO GROUP COMPANIES	28	3,240	913
OTHER BORROWED FUNDS	22	16,859	2,673
DEFERRED INCOME TAX LIABILITIES	18	70	278
OTHER LIABILITIES	23	1,686	1,610
TOTAL LIABILITIES		**152,583**	**89,042**
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	24	6,278	4,542
SHARE PREMIUM	24	3,738	757
REGULATORY RESERVE	25	835	558
PROPOSED DIVIDENDS	30	1,726	681
RETAINED EARNINGS		7,996	6,285
TOTAL SHAREHOLDERS' EQUITY		**20,573**	**12,823**
TOTAL EQUITY AND LIABILITIES		**173,156**	**101,865**

The Financial Statements on pages 18 to 53 were approved for issue by the Board of Directors on 17 March 2009 and signed on its behalf by:

K. AHADZI	**M. KIWANUKA**	**J. CARRUTHERS**	**S. BEYANGA**
Managing Director	Director	Chairman	Secretary

Financial Statements

STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL SHS MILLIONS	SHARE PREMIUM SHS MILLIONS	REGULATORY RESERVE SHS MILLIONS	PROPOSED DIVIDEND SHS MILLIONS	RETAINED EARNINGS SHS MILLIONS	TOTAL SHS MILLIONS
YEAR ENDED 31 DECEMBER 2007							
AS PREVIOUSLY STATED		4,001	-	381	-	5,217	9,599
PRIOR YEAR ADJUSTMENT-							
RETIREMENT BENEFIT OBLIGATION	29	-	-	-		(166)	(166)
AS RESTATED		4,001	-	381	-	5,051	9,433
PROFIT FOR THE YEAR		-	-	-		2,092	2,092
TRANSFER TO REGULATORY RESERVE	25	-	-	177		(177)	-
PROPOSED DIVIDEND					681	(681)	-
ISSUE OF SHARES	24	541	757	-	-		1,298
AT END OF YEAR		**4,542**	**757**	**558**	**681**	**6,285**	**12,823**
YEAR ENDED 31 DECEMBER 2008							
AT START OF YEAR:							
AS PREVIOUSLY STATED		4,542	757	558	681	6,451	12,989
PRIOR YEAR ADJUSTMENT-							
RETIREMENT BENEFIT OBLIGATION	29	-	-	-		(166)	(166)
AS RESTATED		4,542	757	558	681	6,285	12,823
PROFIT FOR THE YEAR		-	-	-		3,714	3,714
TRANSFER TO REGULATORY RESERVE	25	-	-	277		(277)	-
FINAL DIVIDEND FOR 2007	30	-	-	-	(681)		(681)
PROPOSED DIVIDEND FOR 2008					1,726	(1,726)	-
ISSUE OF SHARES	24	1,736	2,981	-		-	4,717
AT END OF YEAR		**6,278**	**3,738**	**835**	**1,726**	**7,996**	**20,573**

CASH FLOW STATEMENT

	NOTES	2008 SHS MILLIONS	RESTATED 2007 SHS MILLIONS
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		17,123	10,057
INTEREST PAYMENTS		(4,683)	(2,260)
NET FEE AND COMMISSION RECEIPTS		5,500	4,407
OTHER INCOME RECEIVED		2,032	1,140
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF	13	276	406
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(12,055)	(8,618)
INCOME TAX PAID	17	(338)	(697)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		7,854	4,435
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(30,271)	(24,541)
- CASH RESERVE REQUIREMENT		(4,545)	(1,266)
- OTHER ASSETS		702	(825)
- CUSTOMER DEPOSITS		47,865	16,885
- DEPOSITS FROM OTHER BANKS		(2,244)	(2,161)
- AMOUNTS DUE TO/FROM GROUP COMPANIES		2,327	859
- OTHER LIABILITIES		(288)	(1,911)
NET CASH FROM OPERATING ACTIVITIES		**21,400**	**(8,525)**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	15	(3,692)	(1,932)
PURCHASE OF INTANGIBLE ASSETS	16	(138)	(1,569)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		7	72
PURCHASE OF SECURITIES		(18,151)	(957)
NET CASH USED IN INVESTING ACTIVITIES		**(21,974)**	**(4,386)**
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES	24	4,853	1,162
PROCEEDS FROM BORROWED FUNDS		14,012	-
REPAYMENT OF BORROWED FUNDS		-	(433)
DIVIDENDS PAID		(681)	-
NET CASH FROM FINANCING ACTIVITIES		**18,184**	**729**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**17,610**	**(12,182)**
CASH AND CASH EQUIVALENTS AT START OF YEAR		12,196	24,378
CASH AND CASH EQUIVALENTS AT END OF YEAR	**27**	**29,806**	**12,196**

Notes

1 GENERAL INFORMATION

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

PLOT 45 JINJA ROAD
P. O. BOX 2750
KAMPALA, UGANDA.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

INTERPRETATIONS EFFECTIVE IN 2008

In 2008, the following new and revised standards and interpretations became effective for the first time but have not had an impact on the Company's financial statements:

- IFRIC 11 – IFRS 2 - Group and treasury share transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction
- IAS 39 and IFRS 7 – Reclassification of financial assets.

One new standard (IFRS 8 – Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Bank's accounting periods beginning on or after 1 January 2009, but the Bank has not early adopted any of them.

The directors have assessed the relevance of these amendments and interpretations with respect to the Bank's operations and concluded that they are will not have any material impact on the Bank's financial statements.

(B) INTEREST INCOME AND EXPENSE

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

When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(C) FEES AND COMMISSION INCOME

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

(D) TRANSLATION OF FOREIGN CURRENCIES

Transactions are recorded on initial recognition in Uganda Shillings, being the currency of the primary economic environment in which the Bank operates (the functional currency). Transactions in foreign currencies during the year are converted into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(E) FINANCIAL ASSETS

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

(a) 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 or if so classifying eliminates or significantly reduces a measurement inconsistency. Derivatives are also categorised as held for trading.

(b) Loans, advances and receivables

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

(c) 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.

(d) Available-for-sale

Available-for-sale assets are those non-derivative financial assets that are not classified under any of the categories (a) to (c) above.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

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

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

(F) 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.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

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

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

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

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

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

(i) Assets carried at amortised cost

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

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

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

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

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

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

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

(ii) Assets carried at fair value

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

(G) PROPERTY AND EQUIPMENT

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

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

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

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

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

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

(H) 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 developing or 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).

(I) INCOME TAX

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

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.

(J) ACCOUNTING FOR LEASES

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

(i) With the Bank as lessee

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

(ii) With the Bank as lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before income tax), which reflects a constant periodic rate of return.

To date, the Bank has not leased out any assets under operating leases.

(K) 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.

(L) EMPLOYEE BENEFITS

(i) Retirement benefit obligations

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 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 and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The Bank's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

(ii) Other entitlements

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

(M) 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.

(N) BORROWINGS

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

(O) OFFSETTING

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

(P) SALE AND REPURCHASE AGREEMENTS

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

(Q) SHARE CAPITAL

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

(R) DIVIDENDS PAYABLE

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

(S) FIDUCIARY ACTIVITIES

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

(T) ACCEPTANCES AND LETTERS OF CREDIT

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

(U) COMPARATIVES

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

3 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, 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.

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 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. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

As part of its credit risk management processes, the Bank monitors the ratio of non-performing loans and advances to total loans and advances in accordance with the Bank of Uganda Financial Institutions Credit Classification and Provisioning Regulations, 2005. As at 31 December 2008, this ratio was 2.4% (2007: 3.6%). The Bank's target ratio was 4%.

CREDIT RELATED COMMITMENTS:

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

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

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD:

	2008	2007
	SHS MILLIONS	SHS MILLIONS
BALANCES WITH BANK OF UGANDA	12,774	6,983
AMOUNTS DUE FROM OTHER BANKS	16,798	3,084
AMOUNTS DUE FROM GROUP COMPANIES	2,341	35
LOANS AND ADVANCES TO CUSTOMERS	84,453	54,608
INVESTMENT SECURITIES HELD-FOR-TRADING	785	
INVESTMENT SECURITIES HELD-TO-MATURITY	33,060	17,080
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	18,419	6,561
- GUARANTEE AND PERFORMANCE BONDS	19,580	12,265
- COMMITMENTS TO LEND	5,593	3,634
TOTAL	**193,803**	**104,250**

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 44% of the total maximum exposure is derived from loans and advances to banks and customers (2007: 52%). 17% represents investments in debt securities (2007: 16%).

Loans and advances to customers other than loans to salaried customers amounting to Shs 47,239 million (2007: Shs 24,014 million), are secured by collateral in the form of charges over land and buildings and/or plant and machinery or guarantees.

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

- the Bank exercises stringent controls over the granting of new loans;
- 92% of the loans and advances portfolio are neither past due nor impaired;
- 55% of the loans and advances portfolio are backed by collateral;
- 99% of the investments in debt securities are government securities.

FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED:

	2008	2007
	SHS MILLIONS	SHS MILLIONS
NEITHER PAST DUE NOR IMPAIRED	79,025	53,411
PAST DUE BUT NOT IMPAIRED	5,354	1,519
INDIVIDUALLY IMPAIRED	1,093	472
GROSS	85,472	55,402
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 13)	(1,019)	(794)
NET	**84,453**	**54,608**

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:

	2008	2007
	SHS MILLIONS	SHS MILLIONS
STANDARD	76,557	53,355
WATCH LIST	2,468	56
TOTAL	**79,025**	**53,411**

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. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2008	2007
	SHS MILLIONS	SHS MILLIONS
PAST DUE UP TO 30 DAYS	3,130	13
PAST DUE 31 – 60 DAYS	1,235	-
PAST DUE 61 – 90 DAYS	-	-
PAST DUE OVER 90 DAYS	989	1,506
TOTAL	**5,354**	**1,519**

LOANS AND ADVANCES INDIVIDUALLY IMPAIRED:

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

	LOANS		OVERDRAFTS	
	2008	2007	2008	2007
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES				
- CORPORATE	478	-	276	135
- SME	-	96	144	88
- CONSUMER	13	94	182	59
TOTAL	**491**	**190**	**602**	**282**
FAIR VALUE OF COLLATERAL	**581**	**48**	**581**	**48**

(B) CONCENTRATIONS OF RISK

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

AT 31 DECEMBER 2008	**LOANS & ADVANCES**	**CREDIT COMMITMENTS**	**CUSTOMER DEPOSITS**
	%	%	%
AGRICULTURAL	5.7	0.3	3.0
MANUFACTURING	0.2	-	0.7
TRADE AND COMMERCE	28.9	32.1	9.7
FINANCIAL SERVICES	2.6	25.4	17.6
TRANSPORT AND UTILITIES	5.1	14.4	2.3
BUILDING AND CONSTRUCTION	15.2	3.2	8.9
INDIVIDUALS	21.3	5.6	28.6
OTHER	21.0	19.0	29.2
TOTAL	**100.0**	**100.0**	**100.0**
AT 31 DECEMBER 2007			
AGRICULTURAL	4.9	0.0	1.2
MANUFACTURING	9.5	9.8	7.1
TRADE AND COMMERCE	4.0	3.6	2.9
FINANCIAL SERVICES	1.8	1.0	14.9
TRANSPORT AND UTILITIES	1.2	-	1.0
BUILDING AND CONSTRUCTION	2.6	26.5	4.2
INDIVIDUALS	40.7	22.2	38.6
OTHER	35.3	36.9	30.1
TOTAL	**100.0**	**100.0**	**100.0**

C) LIQUIDITY RISK

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

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank of Uganda requires that the Bank maintain a cash reserve ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis.

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date and from financial assets by the expected maturity dates. All figures are in millions of Uganda Shillings.

AT 31 DECEMBER 2008	**UP TO 1 MONTH**	**1-3 MONTHS**	**3-12 MONTHS**	**1-5 YEARS**	**OVER 5 YEARS**	**TOTAL**
ASSETS						
CASH AND BANK BALANCES WITH BANK OF UGANDA	22,010	-	-	-	-	22,010
AMOUNTS DUE FROM BANKING INSTITUTIONS	16,798	-	-	-	-	16,798
AMOUNTS DUE FROM GROUP COMPANIES	401	-	1,940	-	-	2,341
LOANS AND ADVANCES TO CUSTOMERS	29,601	4,863	6,183	36,346	7,460	84,453
INVESTMENT SECURITIES	3,000	14,247	16,074	524	-	33,845
PROPERTY AND EQUIPMENT	-	-	-	1,150	7,489	8,639
INTANGIBLE ASSETS	-	-	-	1,370	-	1,370
OTHER ASSETS	3,700	-	-	-	-	3,700
TOTAL ASSETS (EXPECTED MATURITIES)	**75,510**	**19,110**	**24,197**	**39,390**	**14,949**	**173,156**
LIABILITIES AND SHAREHOLDERS' FUNDS						
AMOUNTS DUE TO CUSTOMERS	99,869	4,962	20,353	2,411	-	127,595
AMOUNTS DUE TO BANKING INSTITUTIONS	1,350	1,783	-	-	-	3,133
AMOUNTS DUE TO GROUP COMPANIES	2,678	562	-	-	-	3,240
OTHER BORROWED FUNDS	412	-	30	4,980	11,437	16,859
OTHER LIABILITIES	1,756	-	-	-	-	1,756
SHAREHOLDERS' EQUITY	-	-	-	-	20,573	20,573
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS (CONTRACTUAL MATURITIES)	**106,065**	**7,307**	**20,383**	**7,391**	**32,010**	**173,156**
NET LIQUIDITY GAP	**(30,555)**	**11,803**	**3,814**	**31,999**	**(17,061)**	

AT 31 DECEMBER 2008	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
CASH AND BANK BALANCES WITH BANK OF UGANDA	14,497	-	-	-	-	14,497
AMOUNTS DUE FROM BANKING INSTITUTIONS	2,658	-	426	-	-	3,084
AMOUNTS DUE FROM GROUP COMPANIES	35	-	-	-	-	35
LOANS AND ADVANCES TO CUSTOMERS	18,814	2,778	5,029	22,507	5,480	54,608
INVESTMENT SECURITIES	129	2,633	13,818	-	500	17,080
PROPERTY AND EQUIPMENT	3	1	62	1,191	4,622	5,879
INTANGIBLE ASSETS	1	-	3	1,658	-	1,662
OTHER ASSETS (EXPECTED MATURITIES)	5,020	-	-	-	-	5,020
TOTAL ASSETS	**41,157**	**5,412**	**19,338**	**25,356**	**10,602**	**101,865**
LIABILITIES AND SHAREHOLDERS' FUNDS						
AMOUNTS DUE TO CUSTOMERS	54,922	3,734	19,496	173	-	78,325
AMOUNTS DUE TO BANKING INSTITUTIONS	4,714	529	-	-	-	5,243
AMOUNTS DUE TO GROUP COMPANIES	913	-	-	-	-	913
OTHER BORROWED FUNDS	-	-	145	1,914	614	2,673
OTHER LIABILITIES	1,610	-	278	-	-	1,888
SHAREHOLDERS' EQUITY					12,823	12,823
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS (CONTRACTUAL MATURITIES)	**61,159**	**4,263**	**19,848**	**2,087**	**13,437**	**101,865**
NET LIQUIDITY GAP	**(20,002)**	**1,149**	**(510)**	**23,269**	**(2,835)**	

(D) 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.

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 2008	USD	GBP	EUR	OTHER	TOTAL
ASSETS					
CASH AND BALANCES WITH BANK OF UGANDA	1,722	340	1,061	19	3,142
AMOUNTS DUE FROM OTHER BANKS	7,955	1,211	5,836	790	15,792
AMOUNTS DUE FROM GROUP COMPANIES	1,958	-	-	335	2,293
LOANS AND ADVANCES TO CUSTOMERS	17,241	63	1,381	-	18,685
OTHER ASSETS	59	-	-	-	59
TOTAL ASSETS	**28,935**	**1,614**	**8,278**	**1,144**	**39,971**
LIABILITIES					
CUSTOMER DEPOSITS	22,030	282	5,617	219	28,148
AMOUNTS DUE TO BANKS	352	-	1	323	676
AMOUNTS DUE TO GROUP COMPANIES	-	992	1,685	562	3,239
OTHER LIABILITIES	5,958	52	-	11	6,021
TOTAL LIABILITIES	**28,340**	**1,326**	**7,303**	**1,115**	**38,084**
NET ON-BALANCE SHEET POSITION	**595**	**288**	**975**	**29**	**1,887**
NET OFF-BALANCE SHEET POSITION	**246**	**(272)**	**(910)**	**25**	**(911)**
OVERALL NET POSITION	**841**	**16**	**65**	**54**	**976**
AT 31 DECEMBER 2007					
TOTAL ASSETS	13,183	840	4,413	336	18,772
TOTAL LIABILITIES	12,803	958	4,725	161	18,647
NET ON-BALANCE SHEET POSITION	**380**	**(118)**	**(312)**	**175**	**125**
NET OFF-BALANCE SHEET POSITION	**1,135**	**223**	**352**	**-**	**1,710**
OVERALL NET POSITION	**1,515**	**105**	**40**	**175**	**1,835**

(ii) Interest rate risk

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

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

AT 31 DECEMBER 2008	**UP TO 1 MONTH**	**1-3 MONTHS**	**3-12 MONTHS**	**OVER 1 YEAR**	**NON-INTEREST BEARING**	**TOTAL**
ASSETS						
CASH AND BALANCES WITH BANK OF UGANDA	-	-	-	-	22,010	22,010
AMOUNTS DUE FROM OTHER BANKS	16,798	-	-	-	-	16,798
AMOUNTS DUE FROM GROUP COMPANIES	401	-	1,940	-	-	2,341
LOANS AND ADVANCES TO CUSTOMERS	29,601	4,863	6,183	43,806	-	84,453
INVESTMENT SECURITIES HELD TO MATURITY	3,000	14,247	16,074	524	-	33,845
PROPERTY AND EQUIPMENT	-	-	-	-	8,63 9	8,639
INTANGIBLE ASSETS	-	-	-	-	1,370	1,370
OTHER ASSETS	-	-	-	-	3,700	3,700
TOTAL ASSETS	**49,800**	**19,110**	**24,197**	**44,330**	**35,719**	**173,156**
LIABILITIES AND SHAREHOLDERS' FUNDS						
CUSTOMER DEPOSITS	58,139	4,962	20,353	2,411	41,730	127,595
AMOUNTS DUE TO BANKS	1,350	1,783	-	-	-	3,133
AMOUNTS DUE TO GROUP COMPANIES	2,678	562	-	-	-	3,240
OTHER BORROWED FUNDS	412	-	30	16,417	-	16,859
OTHER LIABILITIES	-	-	-	-	1,756	1,756
SHAREHOLDERS' FUNDS	-	-	-	-	20,573	20,573
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	**62,579**	**7,307**	**20,383**	**18,828**	**64,059**	**173,156**
INTEREST SENSITIVITY GAP	**(12,779)**	**11,803**	**3,814**	**25,502**		
AT 31 DECEMBER 2007						
TOTAL ASSETS	21,636	5,411	19,273	28,487	27,058	101,865
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	36,349	4,263	19,641	2,701	38,911	101,865
INTEREST SENSITIVITY GAP	**(14,713)**	**1,148**	**(368)**	**25,786**		

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

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

The effective interest rates by major currency for monetary financial instruments not carried at fair value through profit or loss at 31 December 2008 and 2007 were in the following ranges:

	2008		2007	
	IN SHS	IN US$	IN SHS	IN US$
ASSETS				
AMOUNTS DUE FROM BANKS	17%	5%	-	5%
LOANS AND ADVANCES TO CUSTOMERS	20%	12%	20%	13%
INVESTMENT SECURITIES	12%	-	10%	-
LIABILITIES				
AMOUNTS DUE TO CUSTOMERS	6%	3%	4%	1%
AMOUNTS DUE TO BANKS	11%	3%	8%	-
OTHER BORROWED FUNDS	10%	6%	9%	-

(E) 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.

(F) 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, plus current year retained profit;
- 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 and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

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

	BALANCE SHEET AMOUNT		RISK WEIGHTED AMOUNT	
	2008	2007	2008	2007
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
BALANCE SHEET ASSETS (NET OF PROVISIONS):				
CASH AND BALANCES WITH BANK OF UGANDA	22,010	14,497	-	-
AMOUNTS DUE FROM OTHER BANKS	16,798	3,084	4,012	658
AMOUNTS DUE FROM GROUP COMPANIES	2,341	35	2,341	35
DERIVATIVE FINANCIAL INSTRUMENTS	-	15	15	15
LOANS AND ADVANCES TO CUSTOMERS	84,453	54,608	84,453	54,608
INVESTMENT SECURITIES HELD TO MATURITY	33,845	17,080	-	-
PROPERTY AND EQUIPMENT	8,639	5,879	8,639	5,879
INTANGIBLE ASSETS	1,370	1,662	1,370	1,662
CURRENT INCOME TAX ASSETS	359	1,081	-	-
OTHER ASSETS	3,341	3,924	3,341	3,924
TOTAL	**173,156**	**101,865**	**104,156**	**66,781**
OFF-BALANCE SHEET POSITIONS				
CONTINGENTS SECURED BY CASH COLLATERAL	5,999	1,631	-	-
GUARANTEES	-	240	-	240
PERFORMANCE BONDS	16,136	11,006	8,068	5,383
LETTERS OF CREDIT AND ACCEPTANCES	15,864	6,189	3,173	1,238
COMMITMENTS TO LEND	5,593	3,634	2,797	1,817
CREDIT RELATED COMMITMENTS	43,592	22,460	14,038	8,678
TOTAL RISK-WEIGHTED ASSETS	**216,748**	**124,325**	**118,194**	**75,459**

CAPITAL RATIOS PER FINANCIAL INSTITUTIONS ACT (FIA) 2004

	CAPITAL AMOUNT		BANK RATIO		FIA 2004 MINIMUM RATIO	
	2008	2007	2008	2007	2008	2007
	SHS MILLIONS	SHS MILLIONS	%	%	%	%
CORE CAPITAL (TIER 1)	18,012	11,584	15	15	8	8
TOTAL CAPITAL (TIER 1 + TIER 2)	**24,669**	**12,142**	**21**	**16**	**12**	**12**

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(A) IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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

(B) FAIR VALUE OF DERIVATIVES

The fair value 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.

Notes

5 INTEREST INCOME

	2008	2007
	SHS MILLIONS	SHS MILLIONS
LOANS AND ADVANCES	12,729	7,418
GOVERNMENT SECURITIES	3,375	1,785
CASH AND SHORT TERM FUNDS	1,122	783
TOTAL	**17,226**	**9,986**

Interest income recognised on impaired financial assets was Shs 341 million (2007: Shs 108 million).

6 INTEREST EXPENSE

	2008	2007
	SHS MILLIONS	SHS MILLIONS
CUSTOMER DEPOSITS	4,874	2,410
DEPOSITS BY BANKS	505	148
BORROWED FUNDS	1,012	236
OTHER	5	12
TOTAL	**6,396**	**2,806**

7 OPERATING EXPENSES

The following items are included within operating expenses:	2008	2007
	SHS MILLIONS	SHS MILLIONS
EMPLOYEE BENEFITS EXPENSE	6,338	4,629
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 15)	914	649
PROFIT ON SALE OF PROPERTY AND EQUIPMENT	(2)	(14)
AMORTISATION OF INTANGIBLES (NOTE 16)	411	50
OPERATING LEASE RENTALS	25	25
AUDITORS' REMUNERATION	67	43

8 EMPLOYEE BENEFITS EXPENSE

The following items are included within employee benefits expense:	2008	2007
	SHS MILLIONS	SHS MILLIONS
RETIREMENT BENEFIT COSTS:		
- DEFINED CONTRIBUTION SCHEME CONTRIBUTIONS	131	68
- NATIONAL SOCIAL SECURITY FUND CONTRIBUTIONS	344	242

9 INCOME TAX EXPENSE

	2008	2007
	SHS MILLIONS	SHS MILLIONS
CURRENT INCOME TAX (NOTE 17)	1,060	262
DEFERRED INCOME TAX (NOTE 18)	(208)	140
TOTAL	**852**	**402**

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

PROFIT BEFORE INCOME TAX	**4,566**	**2,494**
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2007: 30%)	1,370	748
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(1,200)	(1,534)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	82	473
PRIOR YEAR DEFERRED TAX UNDER PROVISION	(460)	453
CURRENT TAX NOT RECOVERABLE	563	
OTHER (FINAL TAX ON GOVERNMENT PAPER AT 15%)	497	262
INCOME TAX EXPENSE	**852**	**402**

10 CASH AND BALANCES WITH BANK OF UGANDA

	2008	2007
	SHS MILLIONS	SHS MILLIONS
CASH IN HAND	9,236	7,514
BALANCES WITH BANK OF UGANDA	12,774	6,983
TOTAL	**22,010**	**14,497**

11 AMOUNTS DUE FROM OTHER BANKS

	2008	2007
	SHS MILLIONS	SHS MILLIONS
ITEMS IN COURSE OF COLLECTION	14,159	935
PLACEMENTS	2,639	2,149
INCLUDED IN CASH AND CASH EQUIVALENTS (NOTE 28)	**16,798**	**3,084**

12 DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

	2008	2007
	SHS MILLIONS	SHS MILLIONS
CURRENCY FORWARDS	-	15
TOTAL	**-**	**15**

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

13 LOANS AND ADVANCES TO CUSTOMERS

	2008	2007
	SHS MILLIONS	SHS MILLIONS
OVERDRAFTS	19,401	15,410
DISCOUNTED BILLS	64	307
LOANS	66,007	39,685
GROSS LOANS AND ADVANCES	**85,472**	**55,402**
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(513)	(424)
- COLLECTIVELY ASSESSED	(506)	(370)
TOTAL	**84,453**	**54,608**

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

	INDIVIDUALLY ASSESSED	COLLECTIVELY ASSESSED
	SHS MILLIONS	SHS MILLIONS
YEAR ENDED 31 DECEMBER 2007		
AT START OF YEAR	**589**	**39**
PROVISION FOR LOAN IMPAIRMENT	1,017	331
AMOUNTS RECOVERED DURING THE YEAR	(406)	-
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(776)	-
AT END OF YEAR	**424**	**370**
YEAR ENDED 31 DECEMBER 2008		
AT START OF YEAR	**424**	**370**
PROVISION FOR LOAN IMPAIRMENT	410	136
AMOUNTS RECOVERED DURING THE YEAR	(276)	-
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(45)	-
AT END OF YEAR	**513**	**506**

All loans are carried at their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2008 was Shs 1,093 million (2007: Shs 472 million).

14 INVESTMENT SECURITIES

	2008	2007
	SHS MILLIONS	SHS MILLIONS
INVESTMENT SECURITIES:		
AT FAIR VALUE THROUGH THE PROFIT AND LOSS ACCOUNT		
- MATURING AFTER 90 DAYS OF THE DATE OF ACQUISITION	785	-
HELD-TO-MATURITY		
GOVERNMENT SECURITIES – AT AMORTISED COST		
- MATURING WITHIN 90 DAYS OF THE DATE OF ACQUISITION	1,384	2,762
- MATURING AFTER 90 DAYS OF THE DATE OF ACQUISITION	31,274	13,816
LISTED DEBT SECURITIES – AT AMORTISED COST	402	502
TOTAL INVESTMENT SECURITIES	**33,845**	**17,080**

15 PROPERTY AND EQUIPMENT

	BUILDINGS & FREEHOLD LAND	MOTOR VEHICLES	FIXTURES, FITTINGS & EQUIPMENT	WORK IN PROGRESS (WIP)	TOTAL
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
AT 1 JANUARY 2007					
COST	700	226	3,701	2,667	7,294
ACCUMULATED DEPRECIATION	(42)	(141)	(2,416)	-	(2,599)
NET BOOK AMOUNT	**658**	**85**	**1,285**	**2,667**	**4,695**
YEAR ENDED 31 DECEMBER 2007					
OPENING NET BOOK AMOUNT	658	85	1,285	2,667	4,695
ADDITIONS	130	38	1,628	136	1,932
TRANSFERS	2,591	-	34	(2,667)	(42)
DISPOSALS	-	(26)	(655)	-	(681)
DEPRECIATION CHARGE	(68)	(48)	(533)	-	(649)
DEPRECIATION ON DISPOSALS		26	598		624
CLOSING NET BOOK AMOUNT	**3,311**	**75**	**2,357**	**136**	**5,879**
AT 31 DECEMBER 2007					
COST	3,421	238	4,437	136	8,232
ACCUMULATED DEPRECIATION	(110)	(163)	(2,080)	-	(2,353)
NET BOOK AMOUNT	**3,311**	**75**	**2,357**	**136**	**5,879**
YEAR ENDED 31 DECEMBER 2008					
OPENING NET BOOK AMOUNT	3,311	75	2,375	136	5,879
ADDITIONS	48	237	3,034	373	3,692
TRANSFERS	-	-	134	(134)	-
DISPOSALS	-	(28)	(3)	-	(31)
WRITE-OFFS	-	(142)	(936)	(2)	(1,080)
DEPRECIATION CHARGE	(63)	(38)	(813)	-	(914)
DEPRECIATION ON DISPOSALS	-	24	1	-	25
DEPRECIATION ON WRITE-OFFS	-	136	932	-	1,068
CLOSING NET BOOK AMOUNT	**3,296**	**264**	**4,706**	**373**	**8,639**
AT 31 DECEMBER 2008					
COST	3,470	305	6,666	373	10,814
ACCUMULATED DEPRECIATION	(174)	(41)	(1,960)	-	(2,175)
NET BOOK AMOUNT	**3,296**	**264**	**4,706**	**373**	**8,639**

16 INTANGIBLE ASSETS

COMPUTER SOFTWARE

	2008	2007
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	**1,662**	**101**
ADDITIONS	138	1,569
TRANSFERS	-	42
WRITE-OFFS	(691)	-
AMORTISATION	(411)	(50)
AMORTISATION ON WRITE-OFFS	672	-
AT END OF YEAR	**1,370**	**1,662**
AT 31 DECEMBER		
COST	1,880	2,434
ACCUMULATED AMORTISATION	(510)	(772)
NET BOOK AMOUNT	**1,370**	**1,662**

17 CURRENT INCOME TAX ASSETS

	2008	RESTATED 2007
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	**1,081**	**646**
INCOME STATEMENT CREDIT (NOTE 9)	(1,060)	(262)
PAYMENTS DURING THE YEAR	338	697
AT END OF YEAR	**359**	**1,081**

18 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2007: 30%). The movement on the deferred income tax account is as follows:

	2008	2007
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	**278**	**138**
INCOME STATEMENT (CREDIT) / CHARGE (NOTE 9)	(208)	140
AT END OF YEAR	**70**	**278**

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

	1 JANUARY 2008	**(CREDITED) CHARGED TO P/L**	**31 DECEMBER 2008**
	SHS MILLIONS	SHS MILLIONS	SHS MILLIONS
DEFERRED INCOME TAX LIABILITIES			
ACCELERATED TAX DEPRECIATION	701	(32)	669
TOTAL	**701**	**(32)**	**669**
DEFERRED INCOME TAX ASSETS			
TAX LOSSES CARRIED FORWARD	313	(130)	183
DEFERRED COMMISSION	-	174	174
PROVISIONS FOR LOAN IMPAIRMENT	110	42	152
OTHER PROVISIONS	-	90	90
TOTAL	**423**	**176**	**599**
NET DEFERRED INCOME TAX LIABILITIES	**278**	**(208)**	**70**

19 OTHER ASSETS

	2008	2007
	SHS MILLIONS	SHS MILLIONS
PREPAID OPERATING LEASE RENTALS	1,150	1,175
ACCOUNTS RECEIVABLE AND PREPAYMENTS	1,423	1,253
ITEMS IN TRANSIT	528	1,138
STATIONERY STOCKS	148	103
OTHER	92	255
TOTAL	**3,341**	**3,924**

20 CUSTOMER DEPOSITS

CURRENT AND DEMAND DEPOSITS	49,975	32,788
SAVINGS ACCOUNTS	23,807	16,594
FIXED DEPOSIT ACCOUNTS	47,694	27,113
MARGIN DEPOSITS	6,119	1,830
TOTAL	**127,595**	**78,325**

21 DEPOSITS FROM OTHER BANKS

ITEMS IN COURSE OF COLLECTION	672	1,594
TERM DEPOSITS	2,461	3,649
TOTAL	**3,133**	**5,243**

22 OTHER BORROWED FUNDS

EIB - UGANDA APEX PRIVATE SECTOR LOAN SCHEME	2,119	2,175
EIB - UGANDA MICROFINANCE SCHEME	30	498
EIB - PRIVATE ENTERPRISE FINANCE FACILITY	5,663	-
FMO - TERM FACILITY	3,195	-
PROPARCO – SUBORDINATED LOAN	5,852	-
TOTAL	**16,859**	**2,673**

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

The EIB – Uganda Microfinance Scheme relates to a line of credit granted to the Bank to on-lend to microfinance institutions in Uganda. These funds attract a fixed rate of interest of 8.6% per annum, (2007: 8.6%).

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 tranch 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 tranch has a minimum tenor of three years and a maximum tenor of ten years.

The FMO - Term Facility is a EUR 2.5 million 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 a US$ 3 million debt granted to the Bank for a term of seven years including a grace period for principal payments of five years. The loan attracts a fixed rate of interest of 6.14% and is registered as Tier 2 Capital under the conditions prescribed by Bank of Uganda for purposes computation of capital adequacy.

23 OTHER LIABILITIES

	2008	RESTATED 2007
	SHS MILLIONS	SHS MILLIONS
BILLS PAYABLE	357	305
CREDITORS	430	518
ACCRUALS	895	541
OTHER	4	246
TOTAL	**1,686**	**1,610**

24 SHARE CAPITAL

	NUMBER OF SHARES	**ORDINARY SHARES**	**SHARE PREMIUM**
	(THOUSANDS)	SHS MILLIONS	SHS MILLIONS
BALANCE AT 1 JANUARY 2007	4,001	4,001	-
ISSUE OF SHARES	541	541	757
BALANCE AT 31 DECEMBER 2007	4,542	4,542	757
BALANCE AT 1 JANUARY 2008	4,542	4,542	757
ISSUE OF SHARES	1,736	1,736	2,981
BALANCE AT 31 DECEMBER 2008	**6,278**	**6,278**	**3,738**

The total authorised number of ordinary shares is 10 million (2007: 5 million) with a par value of Shs 1,000 per share.

In January and October 2008 the Board approved additional rights issues of 540,818 shares and 1,195,804 shares respectively at a price of Shs 2,399 and Shs 2,860 per share respectively. All the shares were paid up by year end.

25 REGULATORY RESERVES

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

	2008	2007
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	**558**	**381**
TRANSFERS FROM RETAINED EARNINGS	277	177
AT END OF YEAR	**835**	**558**

26 OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

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

CONTINGENT LIABILITIES

	2008	2007
	SHS MILLIONS	SHS MILLIONS
ACCEPTANCES AND LETTERS OF CREDIT	18,419	6,561
GUARANTEE AND PERFORMANCE BONDS	19,580	12,265
TOTAL	**37,999**	**18,826**

NATURE OF CONTINGENT LIABILITIES

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

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

OTHER COMMITMENTS

	2008	2007
	SHS MILLIONS	SHS MILLIONS
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	5,593	3,634

NATURE OF COMMITMENTS

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

LEGAL PROCEEDINGS

There were a number of legal proceedings outstanding against the Bank at 31 December 2008. No provision has been made as professional advice indicates that it is unlikely that any additional significant loss will crystallise.

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

	2008	2007
	SHS MILLIONS	SHS MILLIONS
CASH AND BALANCES WITH BANK OF UGANDA (NOTE 10)	22,010	14,497
LESS: CASH RESERVE REQUIREMENT (SEE BELOW)	(12,727)	(8,182)
GOVERNMENT SECURITIES (NOTE 14)	1,384	2,762
PLACEMENTS WITH OTHER BANKS (NOTE 11)	16,798	3,084
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 28)	2,341	35
TOTAL	**29,806**	**12,196**

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

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

28 RELATED PARTY TRANSACTIONS

The Bank shareholders are comprised of the following:

	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA - KENYA	51.2%	KENYA
AUREOS EAST AFRICA FUND LLC	21.9%	MAURITIUS
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	17.5%	THE NETHERLANDS
CENTRAL HOLDINGS UGANDA LTD.	9.4%	UGANDA

There are other companies which are related to the Bank through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placings of foreign currencies are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are shown below:

	2008	2007
	SHS MILLIONS	SHS MILLIONS
AMOUNTS DUE FROM GROUP COMPANIES	2,341	35
INTEREST INCOME EARNED ON THE ABOVE	56	-
AMOUNTS DUE TO GROUP COMPANIES	3,240	913
INTEREST EXPENSE INCURRED ON THE ABOVE	42	-

Advances to customers at 31 December 2008 include loans to directors, loans to companies controlled by directors or their families, and loans to employees as follows:

	2008	2007
	SHS MILLIONS	SHS MILLIONS
LOANS TO DIRECTORS		
AT START OF YEAR	**334**	**161**
ADVANCED DURING THE YEAR	251	346
REPAID DURING THE YEAR	(334)	(68)
TRANSFERS TO THIRD PARTY LOANS	-	(105)
AT END OF YEAR	**251**	**334**

At 31 December 2008 advances to employees amounted to Shs 1,922 million (2007: Shs 1,157 million).

All the above loans were given on interest rates ranging between 3% and 21% (2007: 3% and 19%) and were all performing as at 31 December 2008 and 2007.

	2008	2007
	SHS MILLIONS	SHS MILLIONS
INTEREST INCOME EARNED	**138**	**55**

No provisions have been recognised in respect of loans given to related parties (2007: nil).

DEPOSITS BY DIRECTORS

	2008	2007
	SHS MILLIONS	SHS MILLIONS
AT START OF YEAR	**37**	**26**
RECEIVED DURING THE YEAR	666	22
REPAID DURING THE YEAR	(37)	(9)
TRANSFERS TO THIRD PARTY DEPOSITS	-	(2)
AT END OF YEAR	**666**	**37**
INTEREST EXPENSE INCURRED	**2**	**-**

KEY MANAGEMENT COMPENSATION

	2008	2007
	SHS MILLIONS	SHS MILLIONS
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	1,051	931
OTHER LONG-TERM BENEFITS	25	25
TOTAL	**1,076**	**956**

DIRECTORS' REMUNERATION

	2008	2007
	SHS MILLIONS	SHS MILLIONS
FEES FOR SERVICES AS A DIRECTOR	51	31
OTHER EMOLUMENTS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	568	508
TOTAL	**619**	**539**

29 RETIREMENT BENEFIT OBLIGATIONS

Prior to 2006, the Bank had a final salary defined benefit plan which was unfunded and was valued using the projected unit credit method. This scheme was converted into a defined contribution plan in 2006. During 2008, the Board agreed to a change from a service cost basis of final basic salary to final gross salary. This change has been accounted for retrospectively in retained earnings and the effect of the change is tabulated below:

EFFECTS ON PRIOR PERIODS	SHS MILLIONS
OPERATING EXPENSE	(237)
LESS: TAX EXPENSE	71
EFFECTS ON RETAINED EARNINGS AT 1 JANUARY 2007	**(166)**

30 DIVIDENDS

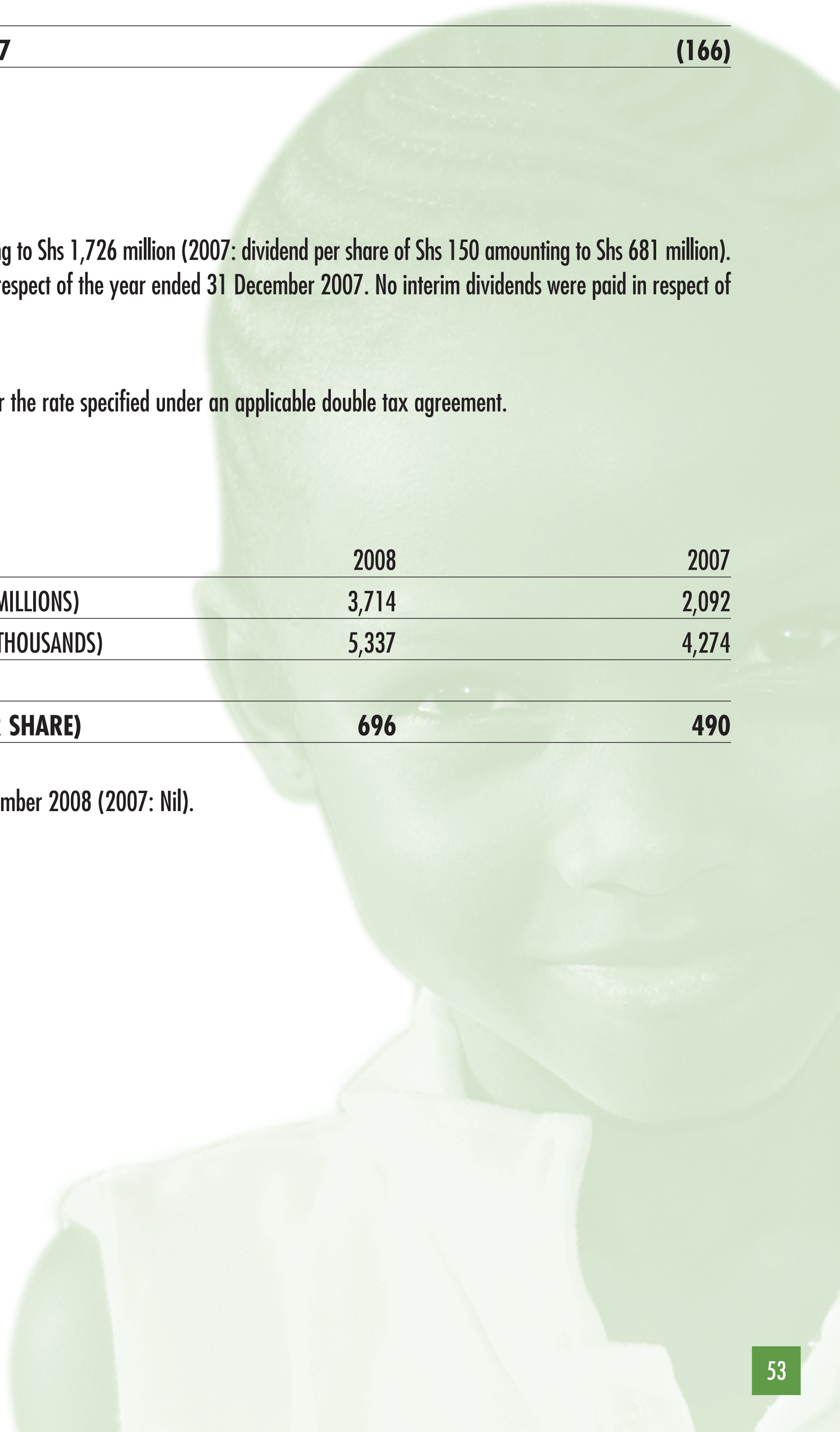
The proposed dividend for the year is Shs 275 per share amounting to Shs 1,726 million (2007: dividend per share of Shs 150 amounting to Shs 681 million). During the year, final dividends of Shs 681 million were paid in respect of the year ended 31 December 2007. No interim dividends were paid in respect of the year ended 31 December 2008.

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

31 EARNINGS PER SHARE

	2008	2007
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (SHS MILLIONS)	3,714	2,092
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES IN ISSUE (THOUSANDS)	5,337	4,274
BASIC EARNINGS PER SHARE (EXPRESSED IN SHS PER SHARE)	**696**	**490**

There were no potentially dilutive shares outstanding at 31 December 2008 (2007: Nil).



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