BANK OF INDIA (UGANDA) LTD

SUMMARISED AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2018

BOI

I. Independent External Auditor's Report

The accompanying financial statements which comprise the summary statements of financial position at December 31, 2018 and the summary statement of profit or loss and related disclosures, are derived from the audited financial statements of Bank of India (Uganda) Limited for the year ended December 31, 2018.

Those financial statements and the summary financial statements do not reflect the effects of events that may have occurred subsequent to the data of our report on the financial statements. The summary financial statements do not contain all the disclosures required by the International Financial Reporting Standards, the Financial Institutions Act 2004, as amended by Financial Institutions (Amendment) Act, 2016 and in the manner required by the Ugandan Company Act. Reading the summary financial statements therefore, is not a substitute for reading the audited financial statements of Bank of India (Uganda) Limited.

Directors' Responsibilities for the Summary Financial Statements
The directors are responsible for the preparation of the summary of the audited financial statements in accordance with the Financial Institutions (External Auditors) Regulations, 2010 and the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act, 2016.

Auditor's Responsibility
Our responsibility is to express an opinion on the Summary Financial Statements based on our procedures, which were conducted in accordance with International Standards on Auditing (ISA) 810 "Engagements to Report on Summary Financial Statements"

Opinion
In our opinion, the Summary Financial Statements derived from the Audited Financial Statements of Bank of India (Uganda) Limited for the year ended December 31, 2018 are consistent, in all material respect, with those financial statements in accordance with the financial institutions (External Auditors) Regulations, 2010 and the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act, 2016.

....

Partner
Grant Thornton
Certified Public Accountants
Kampala, Uganda
April 26, 2019

II. Summary Statement of Financial Position

	2018 Shs'000	2017 Shs'000
Assets		
Cash and Balances with Bank Of Uganda	27,846,648	15,328,985
Government Securities and Placements	26,207,043	47,703,036
Deposits and Balances due from Other Financial Institutions	17,784,485	13,046,684
Loans and Advances to Customers (net)	127,337,438	85,641,808
Amounts due from Branches of Parent Company	656,696	1,274,886
Property and Equipment	1,783,344	2,076,253
Deferred Tax Asset	1,073,902	1,705,416
Other Assets	887,788	2,123,315
Total Assets	**203,577,344**	**168,902,383**
Liabilities and Shareholder's Equity		
Customer Deposits	125,452,544	114,046,880
Other Financial Liabilities		18,175,000
Amounts due to Group Companies	39,007,500	-
Other Liabilities	1,211,119	1,515,395
Total Liabilities	**165,671,163**	**133,737,275**
Capital and Reserves Attributable to Company's Equity Holders		
Share Capital	27,000,000	27,000,000
Regulatory Credit Risk Reserve	244,121	429,904
Proposed Dividend	1,620,000	1,080,000
Retained Earnings	9,042,060	6,655,204
Total Shareholders' Equity	**37,906,181**	**35,165,108**
Total Liabilities and Shareholder's Equity	**203,577,344**	**168,902,383**

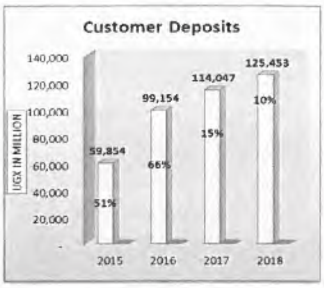
III. Summary Statement of Comprehensive Income

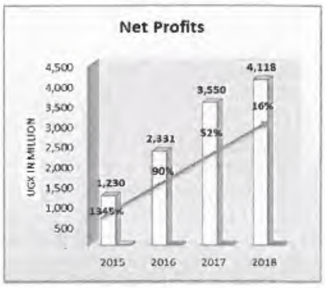
	2018 Shs'000	2017 Shs'000
Income		
Interest on Deposits and Placement	1,384,221	1,331,493
Interest on Loans and Advances	12,133,516	8,989,139
Interest on Investment Securities	2,686,034	4,824,256
Fee and Commission Income	1,676,497	1,053,015
Foreign Exchange Income	378,712	297,348
Other Income	308,694	98,531
Total Income	**18,567,674**	**16,593,782**
Expenditure		
Interest Expense on Deposits	(5,201,215)	(5,853,380)
Interest Expense on Borrowings	(35,303)	(16,318)
Provision for Bad & Doubtful Debts	(365,698)	15,793
Operating Expenses	(7,470,780)	(5,978,575)
Total Expenditure	**(13,072,996)**	**(11,832,480)**
Profit Before Tax	**5,494,678**	**4,761,302**
Income Tax Charge	(1,376,671)	(1,211,183)
Profit After Tax	**4,118,007**	**3,550,119**

Key Performance Highlights

- Customer Deposits grew by 10% to UGX 125 Bn
- Loans & Advances grew by 49% toUGX 127 Bn
- Retained Earnings grew by 36% toUGX 9.04 Bn
- Profit After Tax grew by 16% to UGX 4.11 Bn
- Non-Performing Loan is 0.0% of Loans & Advances

Graphical Representation of Key Business Parameters





IV. Other Disclosures

	2018 Shs'000	2017 Shs'000
Contingent Liabilities		
Guarantees	11,170,092	11,220,390
Letters of Credit	2,659,438	3,190,275
Total	**13,829,530**	**14,410,665**
Commitments		
Undrawn Credit Lines & Other Commitments to Lend	11,237,375	12,549,196
Documents Sent for Collection	1,293,913	1,861,817
Total	**12,531,288**	**14,411,013**
Non-performing Loans and Other Assets	-	431,432
Interest in Suspense	-	4,756
Bad debts Written Off	248,956	13,605
Large Loan Exposures	62,773,179	41,664,677
Insider Loan Exposures	93,004	178,590
Capital Position		
Core Capital	34,968,160	31,949,790
Supplementary Capital	1,292,580	860,751
Total Qualifying Capital	**36,260,740**	**32,810,541**
Weighted Assets with Market risks	1,065,807	-
Total Risk Weighted Assets (RWA)	**144,1176,292**	**107,723,069**
Core Capital to RWA	24.25%	29.66%
Total Qualifying Capital to RWA	25.15%	30.46%

V. Message from the Directors

The above Summary Statement of Financial Position and Statement of Comprehensive Income were audited by Grant Thornton and received an unqualified opinion. The financial statements were approved by the Board of Directors on 19th March 2019 and discussed with Bank of Uganda on 15th April 2019.

....	....	....
Peter C R Kabatsi	**Ajay Kumar Panth**	**Monica Mubezi Katiko**
Chairman	**Managing Director**	**Director**

Address: Head Office, Plot No. 37, Jinja Road,
P. O. Box 7332, Kampala, Uganda
Bank of India (U) Ltd is regulated by Bank of Uganda

Bank of India (Uganda) Limited

Annual Report and Financial Statements
for the year ended December 31, 2018

Index

The reports and statements set out below comprise the annual report and financial statements presented to the shareholders:

Corporate Information

Nature of business and principal activities	Banking and related services	
Board of Directors	Mr. Peter C.R. Kabatsi*	Chairman and Independent Non-Executive Director
	Mr Ajay Kumar Panth**	Managing Director
	Mr Amrendra Kumar**	Executive Director
	Mr Sheoji Ram Meena**	Non-Executive Director
	Mr Viswanath Gunta**	Non-Executive Director
	Ms Monica Mubezi Katiko*	Non-Executive Director
	Ms Rosetti N Nayenga*	Non-Executive Director

* Ugandan ** Indian

Board Credit Committee	Ms Rosetti N Nayenga	Chairman
	Mr Ajay Kumar Panth	Member
	Mr Amrendra Kumar	Member
Board Audit Committee	Ms Monica Mubezi Katiko	Chairman
	Ms Rosetti N Nayenga	Member
Board Risk Management Committee	Mr Gunta Viswanath	Chairman
	Ms Monica Mubezi Katiko	Member
	Mr Ajay Kumar Panth	Member
Board Asset and Liabilities Committee	Mr Meena Sheoji Ram	Chairman
	Ms Rosetti N Nayenga	Member
	Mr Ajay Kumar Panth	Member
Board Compensation Committee	Mr Meena Sheoji Ram	Chairman
	Ms Rosetti N Nayenga	Member
	Ms Monica Mubezi Katiko	Member

Corporate Information

Registered office	Plot 37 Jinja Road PO Box 7332 Kampala, Uganda
Company Secretary	M/s Wagabaza & Co. Advocates National Insurance Corporation Building (NIC) 9th Floor, Plot 3, Pilikington Road PO Box 25590 Kampala, Uganda
Principal Corrospondent Banks	Bank of India, New York 277 Park Avenue, New York, NY 10172 United States of America Bank of India, Paris Branch 3 Rue Scribe 75009, Paris France Bank of India, London 63 Queen Victoria Street, EC4N 4UA, London United Kingdom Bank of India, Mumbai Overseas 70-80, M G Road, Fort Mumbai 400 001 India Bank of India - Nairobi Kenyatta Avenue PO Box 30246 00100 Nairobi, Kenya
Principal Legal Advisors	Oundo & Co. Advocates Plot No. 1 Pilkington Road Workers House PO Box 11070 Kampala, Uganda Verma Jivram & Associates Third floor Sil Courts Plot 88, Luthuli Avenue Bugolobi PO Box 7595 Kampala, Uganda SSebugwawo & Co.Advocates Plot 1 Pilkington Road, 7th Floor Workers House, P.O Box 787, Kampala Uganda Kiiza & Kwanza Co. Advocates 4th Floor Social Security Building, Kampala, Uganda

Corporate Information

Principal Valuers	Survesis PO Box 34738, Kampala, Uganda
	Associated Consulting Surveyors PO Box 343558, Kampala, Uganda
	Futures Properties Consultants PO Box 33111 Kampala, Uganda
	Ideal Surveyors, Valuers and Real Estate Management Consultant PO Box 27246 Kampala, Uganda
Parent Bank	Bank of India Star House, C-5 G" Block, Bandra (East) Mumbai 400 051 India
Independent Auditor	Grant Thornton Certified Public Accountants PO Box 7158 Kampala, Uganda
Branches	Jinja Road, Kampala
	Bombo Road, Kampala

Corporate Governance

Corporate governance is the process by which banks are directed and controlled with the objective of increasing shareholders value and satisfying shareholders. This is achieved by establishing a system of clearly defined authorities and responsibilities which result in the system of internal controls that is regularly tested to ensure effectiveness.

1. Respective responsibilities

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective governance.

The Bank is committed to the principles of corporate governance and conducts its business in accordance with generally accepted best practices. The Bank has intensified focus on regulations, compliance, standardisation and professionalism to lay strong foundation for effective corporate governance. Therefore, the Directors confirm that:

- The meetings of Board of Directors are held at least once in a quarter.
- The affairs of the bank are regularly being monitored by the Committees of the Board by holding meetings at least once in a quarter.
- The positions of Chairman and Managing Director are held by different persons.
- The board is responsible for strategies, policies, approval of budgets.
- The board with their knowledge and vast professional experience are supplementing the performance of the Bank by executive management.

2. Board of directors

The composition of the Board is set out on **page 2**. The Board is chaired by a non executive Chairperson. All non-executive directors are independent of management. The Board has varied and extensive skills in the areas of banking, business management, accountancy and information communication and technology. The directors' responsibilities are set out in the Statement of Directors Responsibilities on **page 9**. The directors are responsible for the development of internal financial controls which provide safeguards against material mis-statements and fraud and also for the fair presentation of the financial statements.

The Chairperson provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. He acts as the link between the Board and the Managing Director and plays a lead role in consensus building between the Board members, the Managing Director and Senior Management. The Chairperson has the casting vote on all decisions of the Board. The Board has delegated the authority for day to day management to the Managing Director. It however retains the overall responsibility for financial and operating decisions and monitoring performance of Senior Management.

The key function of the Board is the identification of current and future risks including operational risk, liquidity risk, regulatory risks, legal risk, reputational risk, market risk and credit risk and to ensure that the necessary systems and controls are in place to enable such risks to be measured, controlled and effectively monitored. The Board has established a management structure, which clearly defines roles, responsibilities and reporting lines. Directors are required to disclose all areas of conflict of interest to the Board and are excluded from voting on such areas of conflict. The Board has access to the company secretary and legal counsel.

The Board has appointed various sub-committees to which it has delegated certain responsibilities with the chairman of the sub-committees reporting to the Board. The composition of the sub-committees is set out on **page** 2.

The Board meets quarterly and has a formal schedule of matters reserved to it. The following table shows the number of Board meetings held and the attendance of individual directors.

During the year under review, the Board meetings were held on the following dates:

- March 27, 2018
- June 12, 2018
- Sept 21, 2018
- Dec 18, 2018

3. Corporate social responsibility

Bank of India (Uganda) Limited is committed to the community in which it operates. During the year ended December 31, 2018, the bank contributed funds towards good causes.

Corporate Governance

4. Directors' Remuneration

The remuneration to all directors is based on the responsibilities allocated to the directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the bank. The remuneration paid to the directors and key management staff is disclosed in **Note 28** to the financial statements.

5. Solvency

The Bank has met all liquidity and capital adequacy ratios stipulated by Bank of Uganda and is considered solvent by Directors.

6. Acknowledgements

The Board expresses its gratitude towards Bank of Uganda and various Departments of Government of Uganda for the valuable guidance and support received from them. The Board also acknowledges the support of its customers, other financial institutions, correspondent Banks and thank them for their support and cooperation. The Board wishes to place on record its appreciation for all the staff members of the Bank for their dedicated service and contribution towards the satisfactory performance of the Bank. Lastly, we thank the Management and staff of the Bank of India, our parent Bank for their continued support and guidance for smooth functioning of our Bank.

Mr Peter C R Kabatsi - Chairman

Mr Ajay Kumar Panth - Managing Director

Ms Monica Mubezi Katiko - Non-Executive Director

Date: ____________________

Directors' Report

The directors have pleasure in submitting their report together with the audited financial statements of Bank of India (Uganda) Limited('the Bank") for the year ended December 31, 2018; which disclose the state of affairs of the bank.

1. Incorporation and commencement of business

The bank was incorporated on November 9, 2010. It was granted a trading licence by Bank of Uganda on March 13, 2012 and commenced operations on June 18, 2012.

2. Nature of business

The principal activities of the bank are that of providing banking, financial and related services

3. Results

The financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required under the Companies Act, 2012 and the Financial Institutions Act, 2004 as amended. The accounting policies have been applied consistently compared to the prior year, except for the adoption of new or revised accounting standards as set out in note 2.

Results

Particulars	**2018** **USh '000**	**2017** **USh '000**
Profit before tax	5,494,678	4,761,303
Tax (expense)	(1,376,671)	(1,211,183)
Profit for the year	**4,118,007**	**3,550,120**

4. Events after the reporting period

The directors are not aware of any events after the reporting period; which may require adjustments or to disclosures in the accompanying financial statements.

5. Share capital

			2018	2017
Authorised			Number of shares	
Ordinary shares			2,700,000	2,700,000
	2018	2017	2018	2017
Issued	USh '000	USh '000	Number of shares	
Ordinary shares	27,000,000	27,000,000	2,700,000	2,700,000

There have been no changes to the authorised or issued share capital during the year under review.

6. Dividends

The directors proposed dividend of USh. 600 per share for the year.

7. Directorate

The directors who held office during this year and to the date of this report are shown on **page 2**. In accordance with the Bank's Articles of Association, no director is due for retirement by rotation.

Directors' Report

Directors	Designation	Nationality	Changes
Mr Peter C.R. Kabatsi*	Non-executive Independent	Ugandan	
Mr Ajay Kumar Panth**	Executive	Indian	
Mr Fred K Muhumuza*	Non-executive Independent	Ugandan	Tenor ended June 17, 2018
Mr Amrendra Kumar**	Executive	Indian	
Mr Sheoji Ram Meena**	Non-executive	Indian	
Mr Viswanath Gunta**	Non-executive	Indian	
Ms Monica Mubezi Katiko*	Non-executive Independent	Ugandan	
Ms Rosetti N Nayenga*	Non-executive	Ugandan	Appointed August 31, 2018

8. Secretary

The company secretary is M/s Wagabaza & Co. Advocates of:

Business address:

National Insurance Corporation Building (NIC)
9th Floor, Plot 3, Pilikington Road
PO Box 25590
Kampala,Uganda

9. Parent Bank

The bank's Parent Bank is Bank of India which holds fully the bank's equity. Bank of India is incorporated in India.

10. Auditors

Grant Thornton; Certified Public Accountants, were appointed as statutory auditors of the Bank in accordance with the section 167(2) of the Companies Act, 2012 and were duly approved by Bank of Uganda in accordance with Section 62 of the Financial Institutions Act, 2004 as amended, being eligible for re-appointment, we recommend appointment of Grant Thornton, Certified Public Accountants as statutory auditors for the year 2019.

The financial statements set out on pages 14 to 57, which have been prepared on the going concern basis, were approved by the board on ________________.

By Order of the Board

____

Company Secretary

Date: __________________
Place: Kampala, Uganda

Directors' Responsibilities and Approval

The Directors are required in terms of the Companies Act, 2012 and the Financial Institutions Act, 2004, and as amended to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the Bank as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards.

The financial statements of Bank of India (Uganda) Limited (the "Bank") are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Bank and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Bank and all employees are required to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known forms of risk across the Bank. While operational risk cannot be fully eliminated, the Bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

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

The financial statements set out on pages 14 to 57, which have been prepared on the going concern basis, were approved by the board on ______________________ and were signed on its behalf by:

____
Director

____
Director

____
Director

Date: ____________________

Place: Kampala, Uganda

Independent Auditor's Report

To the members of Bank of India (Uganda) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the Financial Statements of Bank of India (Uganda) Limited ("the Bank") set out on pages 14 to 57, which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of Bank of India (Uganda) Limited as at December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Companies Act, 2012 and the Financial Institutions Act, 2004, and as amended.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans and advances to customers	
Refer to note 1.2, 1.10, 1.11, 2 and 14 of the financial statements on pages 18, 24, 29 and 48 respectively The allowance for impairment of loans and advances to customers is considered to be a matter of most significance as it requires the application of judgement and use of both objective and subjective assumptions by management. In addition, on January 1, 2018, a new accounting standard for financial instruments (IFRS 9) became effective, which introduced impairment based on expected credit losses, rather than incurred loss model previously applied under IAS 39. The allowance for impairment of loans to customers is considered to be matter of most significance as it requires the application of significant judgment and use of subjective assumptions by management. Significant judgement is required in determining the stage, probability of default, loss given default, computation of effective interest rate, credit rating or classification, cash flow projections, etc. Loans and advances to customers contributed 62.55% of total assets of the Bank. The loan portfolio and characteristics of the same differ, therefore requiring a different approach in the assessment for specific allowance by management.	Our audit procedures included understanding and testing of the design and operating effectiveness of the key controls over the following: a) Automated controls over approving, recording and monitoring of loans and advances; b) Controls around identifying impaired loans and advances; and c) The governance process of loans downgrading, including the continuous re-assessment of the appropriateness of assumptions used in for determining the impairment allowance. Our testing of the design and operations of the controls provided a basis for us to continue with the planned nature, timing and extent of our detailed audit procedures. Our procedures to assess management's provision for specific allowances, in response to the risks specific to the business units included the following: a) We obtained an understanding of the Bank's credit policy and evaluated the processes for identifying impairment indicators and consequently, the grading of loans for compliance on the classification;

Key audit matter	
Bank's loan portfolio consists of corporates and individual customers. Management monitors repayment abilities of individual customers based on the security on the date of assessment and their knowledge for any objective evidence for impairment.	b) As IFRS 9 was adopted at the start of the year, we performed audit procedures on the opening balance to gain assurance on the transition from IAS 39. This included evaluating the compliance with transition rules as per IFRS 9 and testing adjustments and disclosures made on transition; c) We selected a sample of loans considering the total exposure, risks, industry trends, etc. For selected samples, we have verified the total exposure, value of security financial performance and banking of borrowers during the year; d) We assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. We evaluated the consistency of key assumptions applied, benchmarking these to our own understanding of the relevant industries and business environments, to assess the validity of the collateral valuations. We re-computed management's calculation of the specific allowances to check the accuracy of data captured in the accounting records; e) We re-computed management's calculation to assess that the Bank maintained general allowances on total credit exposure net of collateral and specific allowances in accordance with the Financial Institutions (credit classification and provisioning) Regulation, 2015; f) We challenged management's judgement and we increased the focus on loans that were not reported as being impaired in sectors that are currently experiencing difficult economic and market conditions; g) We tested a sample of the data used in the models as well as assessing the model methodology and tested the calculations within the models; h) We assessed whether the modelling assumptions used considered all relevant risks. We also tested the extraction from underlying systems of historical data used in the models; and i) We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards including disclosure of transition from IAS 39. Based on our review, we found that the Bank's impairment methodology, including the model, assumptions and key inputs used by management to estimate the amount of loan impairment losses were comparable with historical performance, and prevailing economic situations. We did not identify any exceptions that would result in material misstatement to the financial statements.

Other information

The directors are responsible for the other information. The other information comprises of informations on **pages 2 to 12**. Other information does not include the Financial Statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Independent Auditor's Report

As required by the Companies Act, 2012 we report to you, based on our audit that:

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

The engagement partner on the audit resulting in this independent auditor's report is CPA Nilesh Patel - P0374.

____

Nilesh Patel
P0374

____

Grant Thornton
Certified Public Accountants

Date: ______________
Place: Kampala, Uganda

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2018 USh '000	2017 USh '000
Interest income	5	16,203,771	15,144,888
Interest expense	6	(5,236,518)	(5,869,698)
Net interest income		**10,967,253**	**9,275,190**
Fees and commission income		1,676,497	1,053,015
Foreign exchange gain (net)		378,712	297,348
Other income	7	308,694	98,531
Administration and operating expenses	8	(7,470,780)	(5,978,574)
Impairment allowance on loans and advances and other credit risk provision	10	(365,698)	15,793
Profit before taxation		**5,494,678**	**4,761,303**
Taxation	11	(1,376,671)	(1,211,183)
Profit for the year		**4,118,007**	**3,550,120**
Other comprehensive income		-	-
Total comprehensive income		**4,118,007**	**3,550,120**

The notes on pages 18 to 57 form an integral part of the financial statements.

Statement of Financial Position

	Note(s)	2018 USh '000	2017 USh '000
Assets			
Cash and balances with Bank of Uganda	12	27,846,648	15,328,985
Government securities and placements	13	26,207,043	47,703,036
Loans and advances to customers (net)	14	127,337,438	85,641,808
Due from related parties	15	656,696	1,274,886
Deposit and balances due from other financial institutions	16	17,784,485	13,046,684
Other assets	17	887,788	2,123,315
Deferred tax	18	1,073,902	1,705,416
Property, plant and equipment	19	1,783,344	2,078,253
Total Assets		**203,577,344**	**168,902,383**
Equity and Liabilities			
Equity			
Share capital	20	27,000,000	27,000,000
Regulatory general credit risk reserves	21	244,121	429,904
Proposed dividend		1,620,000	1,080,000
Retained earnings		9,042,060	6,655,205
		37,906,181	**35,165,109**
Liabilities			
Due to related parties	22	39,007,500	18,175,000
Customer deposits	23	125,452,544	114,046,879
Other liabilities	24	1,211,119	1,515,395
Total Liabilities		**165,671,163**	**133,737,274**
Total Equity and Liabilities		**203,577,344**	**168,902,383**

The financial statements and the notes on pages 14 to 57, were approved by the Board on the __________________
and were signed on its behalf by:

Director

Director

Director

The notes on pages 18 to 57 form an integral part of the financial statements.

Statement of Changes in Equity

	Share capital	Proposed dividend	Regulatory general credit risk reserve	Retained earnings	Total equity
	USh '000	USh '000	USh '000	USh '000	USh '000
Balance at January 1, 2017	**27,000,000**	**540,000**	**364,351**	**4,250,638**	**32,154,989**
Profit for the year	-	-	-	3,550,120	3,550,120
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**3,550,120**	**3,550,120**
Transfer to regulatory reserves	-	-	65,553	(65,553)	-
Dividends paid	-	(540,000)	-	-	(540,000)
Dividends proposed	-	1,080,000	-	(1,080,000)	-
Balance as at December 31, 2017, as previously reported	27,000,000	1,080,000	429,904	6,655,204	35,165,108
Adjustment on initial application of IFRS 9 (net of tax)	-	-	-	(296,934)	(296,934)
Balance at January 1, 2018 as restated	**27,000,000**	**1,080,000**	**429,904**	**6,358,270**	**34,868,174**
Profit for the year	-	-	-	4,118,007	4,118,007
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**4,118,007**	**4,118,007**
Transfer to regulatory reserves	-	-	(185,783)	185,783	-
Dividend paid	-	(1,080,000)	-	-	(1,080,000)
Dividends proposed	-	1,620,000	-	(1,620,000)	-
Balance at December 31, 2018	**27,000,000**	**1,620,000**	**244,121**	**9,042,060**	**37,906,181**

The notes on pages 18 to 57 form an integral part of the financial statements.

*The regulatory credit risk reserves represents the excess of loan impairment allowance as computed in accordance with Bank of Uganda prudential guidelines over the impairment allowance of loans and advances computed in accordance with IFRS 9. This reserves is not distributable.

Statement of Cash Flows

	Note(s)	2018 USh '000	2017 USh '000
Cash flows from operating activities			
Interest receipts		16,422,129	16,055,577
Interest payments		(4,957,777)	(6,065,334)
Net fees and commission receipts		1,677,941	1,060,014
Other income received		308,694	98,531
Foreign exchange gain (loss)		378,712	297,348
Payments to employees and suppliers		(6,924,276)	(5,329,621)
Bad debts w/off		(248,956)	(13,608)
Changes in working capital:			
Loans and advances to customers (net)		(42,009,015)	(13,667,017)
Cash reserve requirement		(2,950,000)	(1,060,000)
Other assets		1,003,655	(1,541,652)
Government securities and placements		6,251,009	14,425,728
Customer deposits		11,126,925	15,088,370
Other financial liabilities		20,832,500	(5,257,500)
Other liabilities		145,032	124,890
Gain on disposal of assets		(21,000)	-
		1,035,573	**14,215,726**
Tax paid		(617,902)	(1,170,594)
Net cash from operating activities		**417,671**	**13,045,132**
Cash flows from investing activities			
Purchase of property, plant and equipment		(484,201)	(1,293,110)
Sale of property, plant and equipment		21,000	-
Net cash used in investing activities		**(463,201)**	**(1,293,110)**
Cash flows from financing activities			
Dividends paid		(1,080,000)	(540,000)
Other non-cash item	27	-	995,801
Net cash from financing activities		**(1,080,000)**	**455,801**
Net change in cash and cash equivalents		**(1,125,530)**	**12,207,823**
Cash and cash equivalents at the beginning of the year		43,973,201	32,761,179
Total cash and cash equivalents at end of the year	25	**42,847,671**	**44,969,002**

Notes to the Financial Statements

Corporate information

Bank of India (Uganda) Limited ("the Bank") is a public limited company incorporated and domiciled in Uganda. The bank was incorporated on November 9, 2010.

The bank is principally engaged in the provision of commercial banking services. The Bank has two branches and all are situated in Kampala.

The Registered office of the bank is:

Plot 37 Jinja Road
PO Box 7332
Kampala, Uganda

1. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

1.1 Basis of preparation

The financial statements have been prepared on the going concern basis in accordance with International Financial Reporting Standards ("IFRSs"), in the manner required by the Companies Act, 2012 and the Financial Institutions Act, 2004 as amended.

These financial statements comply with the requirements of the Companies Act, 2012. The statement of profit or loss represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

The financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Uganda Shillings, which is the bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

These accounting policies are consistent with the previous period except for the changes set out in note 2.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty

Fair value estimation

Several assets and liabilities of the Bank are either measured at fair value or disclosure is made of their fair values.

A valuation committee was established in order to determine the appropriate valuation techniques and inputs for each valuation. The committee reports to the director. Significant valuation issues are reported to the audit committee.

Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

Notes to the Financial Statements

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment of loans and advances

Critical estimates have been made by the management in arriving at the discounted values of securities in order to arrive at the impairment charges for loans and advances. The calculation of impairment involves key judgements made by the directors;

- Loan loss provisions are management's best estimate of incurred loss in the loan portfolio at the balance sheet date. Management has to exercise judgement in making assumptions and estimates of the loan portfolio on both individually and collectively assessed loan and advances

- For individually significant financial assets, the Bank considered judgements that have an impact on the expected future cash flows of the asset. These include, the business prospects, industry and geopolitical climate of the customer, realizable value of collateral, the Bank's legal position, etc. Many of the key judgement factors have a degree of interdependency, therefore a significant level of judgement is required.

- The difference between the loan carrying amount and the discounted expected future cash flows will result in the impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken, the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis

- For financial assets which are not individually significant, which comprise a large number of loans that with similar risk characteristics, statistical estimates and techniques are used. These techniques use models which analyze sector wise historical repayment and default rates over a period of five years. Further judgement is required to determine whether the current economic climate, behavioral and credit conditions are such that the actual level of incurred losses, and losses inherent in the collective portfolio is likely to be greater or less than historical experience, and is not fully reflective in the allowance estimated through the use of statistical models and historical data.

- The Expected Loss utilizes probability of default and loss given default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in one sector. Probability of default is determined based on the Bank's internal assessment and customer's credit rating, no of days' delay in repayment of dues.

- The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more default events occurring after the initial recognition. 90 days or more past due principle and interest.

Useful lives of property and equipment

Management reviews the useful lives and residual values of the items of property and equipment on a regular basis. During the financial year, the directors determined significant changes in the useful lives and residual values. Assessment of the useful lives of the property and equipment was done by the external consultant.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

Provisions

Provisions are inherently based on assumptions and estimates using the best information available. Management makes estimates for the provisions, based on the historical data available and reassesses them at the end of every reporting period.

Lease classification

The Bank is party to leasing arrangements, both as a lessee and as a lessor. The treatment of leasing transactions in the financial statements is mainly determined by whether the lease is considered to be an operating lease or a finance lease. In making this assessment, management considers the substance of the lease, as well as the legal form, and makes a judgement about whether substantially all of the risks and rewards of ownership are transferred.

Notes to the Financial Statements

1.2 Significant judgements and sources of estimation uncertainty (continued)

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Bank recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Bank to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Bank to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Critical judgements in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Impairment of non financial assets

The Bank reviews its non financial assets to assess the likelihood of impairment on an annual basis. In determining whether such assets are impaired, management make judgements as to whether there are any conditions that indicate potential impairment of such assets.

1.3 Revenue

Policy applicable from January 1, 2018

The Bank has initially applied IFRS 15 from January 1, 2018. The effect of initially applying IFRS 15 is described in **note 3**. The Bank generates revenue primarily from the fees and commission. Revenue is recognised over the tenure of the facility provided. The stage of completion for determining the amount of revenue to recognise is assessed based on services rendered. If the services under single arrangement are rendered in different reporting periods then the consideration is allocated based on their relative stand-alone selling prices. Stand-alone selling price is determined based on the list prices at which the Bank sells the services in separate transactions.

Policy applicable prior to January 1, 2018

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Bank.

The Bank recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the Bank's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Bank bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

Interest income is recognised on an accruals basis in the income statement using the effective yield on the asset. Interest income includes income from loans and advances, income from placements with and loans and advances to other banking institutions and income from government securities. When financial assets become impaired, interest income is thereafter recognised at rates used to discount future cash flows for the purposes of measuring the recoverable amount. Finance lease income is recognised to reflect a constant rate of return on the investment and is accrued over the agreement period using the reducing balance method.

Fees and commissions income are recognised proportionately over the loan period. However, the documenation fees were recorded at the time of approval of the facility.

Foreign exchange trading income is recognised at the time of effecting the transaction. It includes income from spot and forward deals and translated foreign currency assets and liabilities. No open forward deals as at December 31, 2018 (2017: Nil).

Notes to the Financial Statements

1.4 Finance income and finance costs

Policy applicable from January 1, 2018

The Bank's finance income and finance costs include:

- Interest income;
- Interest expenses;
- Dividend income;
- the net gain or loss on the financial assets at FVTPL; and
- foreign currency gain or loss on financial assets and financial liabilities

Interest income or expenses is recognised using the effective interest method.

Dividend income is recognised in profit or loss on the date on which the Bank's right to receive payment is established.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial assets; or
- the amortised cost of the financial liability

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Policy applicable prior to January 1, 2018

Interest expense for all interest bearing financial liabilities is recognised within interest expense in the income statement using the effective interest method. Interest expense includes expense incurred on customer deposits and placements and overnight borrowings with other banking institutions.

1.5 Translation of foreign currencies

Foreign currency transactions

Transactions in foreign currencies during the period are converted into Uganda Shillings (functional currency), at rates ruling at the transaction dates. Assets and liabilities at the date of this report which are expressed in foreign currencies are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit or loss in the period in which they arise.

A foreign currency transaction is recorded, on initial recognition in Uganda Shillings, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

1.6 Property, plant and equipment

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the bank, and the cost of the item can be measured reliably.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Notes to the Financial Statements

1.6 Impairment of non-financial assets (continued)

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the bank. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

Depreciation is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful life, using the following annual rates.

Nature of assets	Depreciation method	Average useful life
Electrical fittings	Straight line	6 years
Furniture and fixtures	Straight line	8 years
Motor vehicles	Straight line	4 years
Office equipment	Straight line	5 years
IT equipment	Straight line	3 years
Leasehold improvements	Straight line	5-10 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.7 Employee benefits

Defined contribution plans

A majority of the bank`s employees are eligible for annual leave and long service awards. The bank also contributes for its employees to the National Social Security Fund (NSSF). Provisions for annual leave and long service rewards and contributions to NSSF are charged to the income statement as incurred. Any differences between the charge to income and NSSF contributions payable is recorded in the balance sheet under other payables, while separate provisions are made for leave pay and long service awards.

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

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

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessee

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the lease period.

Prepaid operating lease rentals are recognised as an asset and are subsequently amortised over the lease period.

Notes to the Financial Statements

1.9 Tax

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

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Notes to the Financial Statements

1.10 Financial instruments

Policy applicable from January 1, 2018

Classification and measurement as per IFRS 9

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

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9has been reduced, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value though profit or loss (FVTPL) under the fair value option.

- Debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of a principal and interest on the principal amount outstanding must be measured at FVTOCL, unless the asset is designated at FVTPL under the fair value option.

- All other debt instruments must be measured at FVTPL.

- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

The business model reflects how groups of financial assets are managed to achieve a particular business objective. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flows ('hold to collect'), and where those contractual cash flows are solely payments of principal and interest (SPPI). Principal represents the fair value of the instrument at the time of initial recognition. Interest in this context represents compensation for the time value of money and associated credit risks together with compensation for other risks and costs consistent with a basic lending arrangement and a profit margin. This requires an assessment at initial recognition of the contractual terms to determine whether it contains a term that could change the timing or amount of cash flows in a way that is inconsistent with the SPPI criteria.

Assets may be sold out of 'hold to collect' portfolios where there is an increase in credit risk. Disposals for other reasons are permitted but such sales should be insignificant in value or infrequent in nature.

Financial asset debt instruments where the business model objectives are achieved by collecting the contractual cash flows and by selling the assets ('hold to collect and sell') and that have SPPI cash flows are held at FVOCI, with unrealised gains or losses deferred in reserves until the asset is derecognised. In certain circumstances, non-trading equity instruments can be irrevocably designated as FVOCI but both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends received are recognised in the Statement of profit or loss.

All other financial assets will mandatorily be held at FVTPL. Financial assets may be designated at FVTPL only if doing so eliminates or reduces an accounting mismatch.

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

Where the contractual terms of financial assets are modified, and that modification does not result in de-recognition, a modification gain or loss is recognised in the Statement of profit or loss and the gross carrying amount of the asset adjusted accordingly.

Notes to the Financial Statements

1.10 Financial instruments (continued)

Policy applicable prior to January 1, 2018

Recognition and derecognision as per IAS 39

Financial assets and financial liabilities are recognised when the Bank become party to the contractual provision to the financial instrument.

Financial assets are derecognised when the contractual right to the cash flows from the financial assets exprie, or when the financial assets and substantially all the risks are transferred. A financial liability is derecognised when extinguished, discharged, cancelled or expires.

The Bank classifies financial assets and financial liabilities into the following categories:
- Held for trading
- Held-to-maturity
- Loans and receivables
- Available-for-sale
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual patternof short-term profit-taking.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related assets were treated as held-for-trading and the underlying financial instruments were carried at amortised cost such as loans and advances to customers or banks and;

- Certain assets, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at 'fair value through profit or loss'.

- The fair values of quoted investments classified as 'held-for-trading' in active markets are based on current bid prices.

The management classify the fair values of financial assets at fair value through profit or loss based on the qualitative characteristics of the fair valuation as at the financial year end. The three hierarchy levels used by management are:

- **Level 1**: where fair values are based on non-adjusted quoted prices in active markets for identical financial assets.

- **Level 2**: where fair values are based on adjusted quoted prices and observable prices of similar financial assets.

- **Level 3**: where fair values are not based on observable market data.

Held-to-maturity: financial assets with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the profit or loss.

Available-for-sale: financial assets that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such assets are classified as non-current assets except where the management intends to dispose the assets within 12months of the date of this report. Subsequent to initial recognition, they are carried at fair value with gains and losses recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised is transferred to retained earnings. However, interest calculated using the effective interest method and gains and losses on disposal of assets classified as 'available-for-sale' are recognised in the profit or loss. Dividends on 'available-for-sale' equity instruments are recognised in the profit or loss when the entity's right to receive payment is established.

Notes to the Financial Statements

1.10 Financial instruments (continued)

Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market other than:

- those that the entity intends to sell immediately or in the short term, which are classified as "held for trading', and those that the entity upon initial recognition designated it as 'fair value through profit or loss';
- those that the entity upon initial recognition designates as 'available-for-sale'; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are classified as current assets where maturities are within 12 months of the date of this report. All assets with maturities greater than 12 months after the date of this report are classified as non-current assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in profit or loss.

Gains and losses on disposal of investments whose changes in fair value were initially recognised in the income statement are determined by reference to their carrying amount and are taken into account in determining profit before tax. On disposal of investments whose changes in fair value were initially recognised in equity, the gains/losses are recognised in the reserve, where the fair values were initially recognised. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retained earnings.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the Bank commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

1.11 Impairment of non-derivative financial assets

Policy applicable from January 1, 2018

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the Expected Credit Loss (ECL) model. This replaces IAS 39's "incurred loss model". Instruments within the scope of the new requirement includes loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivable, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contract that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Bank first identifying a credit loss event. Instead the Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between;

Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and

Financial instrument that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

The Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

The Bank considers a financial asset to be in default when;

The borrower is unlikely to pay its credit obligation to the Bank in full without recourse by the Bank to actions such as realizing security (if any is held); or

Notes to the Financial Statements

1.11 Impairment of non-derivative financial assets (continued)

- The financial assets is more than 90 days past due; and
- "12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

The Bank considers a security issued by Bank of Uganda to have very low credit risk.

Measurement of ECL

- Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument;
- ECL are discounted at the effective interest rate of the financial instrument; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

Definition of default.

Quantitatively default is defined by the bank when a customer has not made any payment for more than 90 days

Qualitatively:

If all payments are not up to date and the customer is evidencing inability and unwillingness to maintain future payments

If the customer has been declared bankrupt by an independent authority of government.

If the customer has been pronounced as a defaulter by other financial institutions through a known public newspaper.

Stage 2 credit defaults - quantitatively:

When a financial instrument is in arrears for more than 30 days and less than 90 days.

Stage 2 credit default - qualitatively

- A customer with various facility and defaults in one of them.
- A restructured customer.
- A customer whose sector has been affected by the nature hazard.

Stage 3 credit default - quantitatively:

Customers in default for 90 days and above in arrears

Stage 3 credit default - qualitatively:

- If the customer has been declared bankrupt by an independent authority of government.
- If the customer has been pronounced as a defaulter by other financial institutions through a known public newspaper.
- If we receive a directive from Bank of Uganda to provide for a customer 100%

The forward looking information

Interest / Exchange rates, Private Sector Credit, Unemployment rates, GDP growth rate, inflation rates, financial soundness indicator. These macro-economic factors impacts the LGD of each sector.

Key Model Inputs and ECL model development

The following information has been used in preparing the model;

- Quarterly loan listing for previous five years;
- Write off details from previous five years;
- Recoveries details previous five years;
- Listing for bank guarantees and letter of credits as at year end;

1.11 Impairment of non-derivative financial assets (continued)

- Listing for placements and treasury bills as at year end; and
- Unutilized overdraft amounts as at year end

The term loan and overdraft facilities have been segmented into different industry sector classification. The IFRS 9 Expected Credit Loss Model has three main inputs and these include the following below:

Probability of Default (PD) - This is an estimate of the likelihood of default over a given time period.

- Bucketing the product for segmentation based on homogeneous characteristic following the spectral classification like agriculture, manufacturing, mining and quarry, trade, transport and communication, building construction and real estates for both term loans, overdrafts, commitments, letters of credits and guarantees other than counter guarantees.

- Historical loan loss rates is calculated as: **Loss rate** = A / B X 100, where A = Profit or loss for credit losses and B = Total loan book (performing & non-performing)

- Computation of weighted average loss rate: Weighted average loss rate for each of the year is computed based on weight given to base year (2012) as 1 and then for other year weight is given based on loan receivable at each reporting period.

- Credit Conversion factor (CCF) used for commitments :

(based onBank of Uganda guidelines - based on Risk Weighted Assest)

Facility	**CCF**
Fund based	100%
Undrawn Overdraft limits	50%
Non Fund Based	
Letter of Credit	20%
Guarantees	100%
Derivatives	5%

Exposure at Default (EAD) - This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest.

Under stage 1 : The carrying amounts of loans and advances (Fund Based) including guarantees, 50% of un-used over drafts and 20% of letters of credits (Non-fund based)

Under stage 2 : Exposure at Default (EAD) under stage 2 is arrived at considering the following factors; spectral classification, collateral values, internal credit rating, external credit rating, financial performance, overdue status of a loan, effective interest rate (EIR) for all Loans and Advances under watch category.

Under stage 3 : All the above factors apply for all Loans and Advances under substandard category.

Loss Given Default (LGD) - This is an estimate of the loss arising in case a default occurs at a given time. It is expressed as a percentage of the EAD.

Therefore, the **ECL** is calculated as: **PD x LGD x EAD**

Presentation of allowance for ECL in the statement of financial position

Loss allowance for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Notes to the Financial Statements

1.11 Impairment of non-derivative financial assets (continued)

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

Write-off

The gross carrying amount of a financial assets is written off when the Bank has no reasonable expectation of recovering a financial instrument in its entirety or a portion thereof. The Bank individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Bank written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Written off credit facilities can be declared dead loan when all securities and all collection efforts for the shortfall amounts are exhausted. All collection activities can then be discontinued.

Policy applicable prior to January 1, 2018

In the prior year, the impairment of financial instrument was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivable that were not considered to be individually impaired loss estimate was then based on recent historical counterparty default rates for each identified industry sector.

1.12 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets and inventory are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Bank's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

1.13 Dividend

Proposed dividends are shown as a separate component of equity until declared.

Dividends are recognized as liabilities in the period in which they are approved by the Bank's shareholders.

1.14 Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

Notes to the Financial Statements

1.15 Provisions and contingencies

Provisions are recognised when:

- the Bank has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Contingent assets and contingent liabilities are not recognised.

1.16 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity.

Notes to the Financial Statements

2. Changes in accounting policy

The financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Financial Instruments IFRS 9

Impairment

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and measurement.

Following table summarises the impact, net of tax, of transition to IFRS 9 on opening balance of accumulated loss and regulatory general credit risk reserves;

	Impact of adopting IFRS 9 on opening balance (in USh '000)
Retained earnings	
Recognition of expected credit losses under IFRS 9	424,184
Transfer to General Credit risk Reserve	(414,576)
Related tax	(127,255)
Impact as at January 1, 2018	(296,934)
Regulatory General Credit Risk Reserve	
Transfer from accumulated loss	424,184
Impact as at January 1, 2018	424,184

Clasification and measurement

IFRS 9 contrains three principal classification categories for financial assts: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial assets is managed and its contractual cash flow characteristics. IFRS 9 eliminates the prvious IAS 39 categories of held to maturity, loan and receivables and avaialble for sale. Under IFRs 9, derivatives embedded in contracts where the host is a financial asset in the cope of the standard are never separated. Instead, the hybbrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. Adoption of IFRS 9 has not had significant effect on the Bank's accounting policies related to financial liabilities and derivative financial instruments.

The following table and the accompanying notes below explain the original measurement categories aunder IAS 39 and the new measurement categories under IFRS 9 for each class of the Bank's financial assets as at January 1, 2018.

The effect of adopting IFRS 9 on the carrying amouts of financial assets as at January 1, 2018 relates solely to the new requirement;

	Original classification under IAS 39	New classification under IFRS 9	Original Carrying amount under IAS 39 (USh '000)	New carrying amount under IFRS 9 (USh '000)
Financial assets				
Cash and balance with Bank of Uganda	Loans and receivables	At amortised costs	15,328,985	15,327,609
Deposit and balances due from other financial institutions	Held to maturity	At amortised cost	13,046,684	13,044,075
Government security	Held to maturity	At amortised cost	47,703,036	47,697,534
Amounts due from overseas branches of parent company	Held to maturity	At amortised cost	1,274,886	1,274,759
Loan and advances to customers (net)	Loans and receivables	At amortised cost	85,641,808	85,227,231
Total financial assets			**162,995,399**	**162,571,208**

Notes to the Financial Statements

2. Changes in accounting policy (continued)

	Original classification under IAS 39	New classification under IFRS 9	Original Carrying amount under IAS 39 (USh '000)	New carrying amount under IFRS 9 (USh '000)
Financial liabilities				
Customer deposit and deposit due to other banking institutions	At amortised cost	At amortised cost	132,221,880	132,221,880
Total financial liabilities			**132,221,880**	**132,221,880**

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied modified retrospective method, as describe below;

- The Bank has used an exemption not to restate comparative information for prior period with respect to classificaiton and measurement (including impairment) requirements. Therefore, comparative figures have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requiremens of IFRS 9, but rather those of IAS 39.

- The following assessments have been made on the basis of the facts and circumstances that xisted at the date of initial application.

a) The determination of the business model within which a financial assets is held.
b) the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
c) the designation of certain investments in equity instruments not held for trading as at FVOCI

- If an investment in debt securities had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

For additional information about the Bank's accounting policies relating to impairement and classification of financial assets and financia liabilities, see **note 1.12**.

IFRS 15: Revenue from contract with customer

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 only cover revenue arising from contracts with customers. Under IFRS 15, a customer of the Bank is a party that has contracted with the entity to obtain goods or services that are an output of the entity's activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IFRS 9.

As mentioned above, the new Revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that the Bank recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new Revenue Standard introduces a five step approach to revenue recognition and measurement:

1. Identifying the contract with customer
2. Identifying the performance obligations
3. Determine the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when / as performance obligation(s) are satisfied

Bank chose not to restate the prior year figure on account of change in the revenue recognition policy. The impact of the new standard has been analysed by the Bank which is not material and hence no additional disclosure is made with regards to that effect.

Notes to the Financial Statements

3. New Standards and Interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the Bank has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IFRS 1: Annual Improvements to IFRS 2014 - 2016 cycle

The amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards deleted certain short term exemptions concerning disclosures of financial assets, employee benefits and investment entities from IFRS 1.

The effective date of the amendment is for years beginning on or after January 1, 2018.

The Bank has adopted the amendment for the first time in the 2018 financial statements.

The impact of the amendment is not material.

Foreign Currency Transactions and Advance Consideration

The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for years beginning on or after January 1, 2018.

The Bank has adopted the interpretation for the first time in the 2018 financial statements.

The impact of the interpretation is not material.

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after January 1, 2018.

The Bank has adopted the amendment for the first time in the 2018 financial statements.

The impact of the amendment is not material.

Notes to the Financial Statements

3. New Standards and Interpretations (continued)

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship", Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after January 1, 2018.

The Bank has adopted the standard for the first time in the 2018 financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract

Notes to the Financial Statements

3. New Standards and Interpretations (continued)

- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after January 1, 2018.

The Bank has adopted the standard for the first time in the 2018 financial statements.

The impact of the standard is not material.

3.2 Standards and interpretations not yet effective

The Bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Bank's accounting periods beginning on or after January 1, 2019 or later periods:

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the Bank are as follows:

Bank as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

3. New Standards and Interpretations (continued)

Bank as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after January 1, 2019.

The Bank expects to adopt the standard for the first time in the 2019 financial statements.

The expected impact of the standard is as follows;

Particulars	Expected impact on account of IFRS 16 (increase/(decrease)) (USh '000)
Total assets	2,171,779
Total liabilities	2,714,724
Operating expenses	(699,193)
Depreciation and amortisation	542,945
Finance cost	271,472

4. Financial risk management

Financial risk management

The Bank's objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Bank consists of debt, which includes the borrowings (excluding derivative financial liabilities) and deposit and balance due from other financial institution and cash and cash equivalent as disclosed in **notes 12, 16 and 22** respectively in the statement of financial position.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to the Financial Statements

4. Financial risk management (continued)

Risk management is carried out by the Bank's treasury and credit department under policies approved by the Board of Directors. The Bank's treasury and credit departments identify, evaluate andmitigate financial risks in close co-operation with various other departmental heads. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit, market, liquidity and operational risks.

In addition, the internal audit department is responsible for the independent review of risk management and the overall control environment.

(b) Capital management

The Bank's objectives when managing capital, which is a broader concept than the equity on the face of financial position are:

- To comply with the capital requirements set by Bank of Uganda, the regulator.

- 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

The Bank monitors the adequacy of its capital using ratios established by Bank of Uganda. These ratios measure capital adequacy by comparing the Bank's core capital with total risk-weighted assets plus risk weighed off-balance sheet items, total deposit liabilities and total risk-weighted off balance sheet items.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied. e.g. cash in hand (domestic and foreign), balances held with Bank of Uganda including securities issued by the Government of Uganda have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting. Based on these guidelines it means that they must be supported by capital equal to 100% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit etc., are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital consists of shareholders' equity comprising paid up share capital, share premium and retained earnings less intangible assets and investments in financial companies, not consolidated. Tier 2 capital includes the Bank's eligible long term loans, mark to market adjustment on available for sale securities and general provisions. Tier 2 capital is limited to 50% of Tier 1 capital.

Notes to the Financial Statements

4. Financial risk management (continued)

The table below summarizes the composition of the regulatory capital.

	2018 USh '000	2017 USh '000
Core capital (Tier 1)		
Share capital	27,000,000	27,000,000
Retained income	9,042,062	6,655,206
Deferred tax	(1,073,902)	(1,705,416)
Total core capital (Tier 1)	**34,968,160**	**31,949,790**
Supplementary capital (Tier 2)		
General provision - 1% as per BOU	1,292,580	860,751
Tier 1 capital	34,968,160	31,949,790
Tier 2 capital	1,292,580	860,751
Total capital (Tier 1 + Tier 2)	**36,260,740**	**32,810,541**

Particulars	2018 Balance Sheet Nominal Amount USh '000	2018 Risk Weight %	2018 Risk Weighted Amount USh '000	2017 Balance Sheet Nominal Amount USh '000	2017 Risk Weight %	2017 Risk Weighted Amount USh '000
Assets						
Cash and balance with Bank of Uganda	27,844,270	0 %	-	15,328,985	0 %	-
Government securities	21,481,069	0 %	-	40,389,214	0 %	-
Due from Commercial Banks in Uganda	22,519,387	20 %	4,503,877	20,360,506	20 %	4,072,101
Due from banks outside Uganda with longterm rating as follows:						
i. Rated AAA to AA (-)	-	20 %	-	-	20 %	-
ii. Rated A(+) to A(-)	-	50 %	-	-	50 %	-
iii. Rated A (-) and non-rated	656,974	100 %	656,974	1,274,886	100 %	1,274,886
Other assets	887,789	100 %	887,789	2,123,315	100 %	2,123,315
Loans and advances (excluding loans secured by 100% cash margin)	117,957,832	100 %	117,957,832	80,041,471	100 %	80,041,471
Outstanding balance fully secured by FDR/SDR	9,379,606	0 %	-	5,600,337	0 %	-
Deferred tax	1,073,902	0 %	-	1,705,416	0 %	-
Property, plant and equipment	1,783,345	100 %	1,783,345	2,078,253	100 %	2,078,253
Total assets	203,584,174		125,789,817	168,902,383		89,590,026
Off balance sheet items						
Guarantees and acceptances	11,170,092	100 %	11,170,092	11,220,390	100 %	11,220,390
Commitments to lend	11,237,375	50 %	5,618,688	12,549,196	50 %	6,274,598
Letters of credit	2,659,438	20 %	531,888	3,190,275	20 %	638,055
Document sent for collection	1,293,913	0 %	-	1,861,817	0 %	-
Total off balance sheet items	26,360,818		17,320,668	28,821,678		18,133,043
Weighted item with market risks			1,065,807			-
Total risk weighted assets			144,176,292			107,723,069

4. Financial risk management (continued)

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. Loans and advances with cash securities totalling to USh 9,379 million (2017: USh 5,600 million). There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of core capital.

	2018 Actual Ratios	2018 Minimum Requirements	2017 Actual Ratios	2017 Minimum Requirements
Core capital to risk-weighted assets ratio	24.25 %	10.00 %	29.66 %	8.00 %
Total capital to risk-weighted assets ratio	25.15 %	12.00 %	30.46 %	12.00 %

Credit risk

The Bank takes on exposure to credit risk, which is the risk that a customer will cause a financial loss for the Bank by failing to fulfil a contractual obligation. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. Credit risk mainly arises from customer loans and advances, credit cards, investing activities and loan commitments (off balance sheet financial instruments).

The credit risk management and control are centralised in credit and treasury departments of the Bank.

- Loans and advances

In measuring credit risk of loans and advances to customers, the Bank reflects on various components. These include:

- the probability of default by the borrower/client on their contractual obligations;
- current exposures on the borrower/client and the likely future development, from which the Bank derives the exposure at default; and
- the likely recovery ratio on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39 and The Financial Institutions (credit classification and provisioning) Regulation, 2005 which are based on losses that have been incurred at the date os the statement of financial position rather than expected loss.

The Bank assesses the probability of default of individual borrower/client using internal rating methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgement and are validated, where appropriate, by comparison with externally available data.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

- Investments

For investments, internal ratings taking into account the requirements of The Financial Institutions (credit classification and provisioning) Regulation, 2005 are used by the Bank for managing the credit risk exposures. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirment at the same time.

- Risk limit control and mitigation policies

4. Financial risk management (continued)

The Bank manages, limits and controls concentrations of credit risk wherever they are identified. 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, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the credit committee.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by charging these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

- Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:

- Mortgages over properties;
- Charges over business assets such as land and buildings, inventory and receivables;
- Charges over financial instruments such as investments;
- Deposits placed under lien.

- Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. 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 advance or loan.

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

	2018 USh '000	2017 USh '000
Balance with Bank of Uganda	23,784,758	13,758,759
Deposit and balances due from other banking institutions	17,784,485	13,046,684
Due from overseas branches of parent company	656,696	1,274,886
Government securities and placements	26,207,043	47,703,036
Other assets	887,788	2,123,315
Loans and advances to customers (net)	127,337,438	85,641,808
Credit exposure relating to off-balance sheet items:		
Guarantees and acceptances	11,170,092	11,220,390
Commitments to lend	11,237,375	12,549,196
Letters of credit	2,659,438	3,190,275
Document sent for collection	1,293,913	1,861,817
	223,019,026	**192,370,166**

The table above represents a worst case scenario of credit risk exposure to the Bank 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 statement of financial position.

- Impairment assessment policies

Notes to the Financial Statements

4. Financial risk management (continued)

The Bank's internal and external systems focus more on credit quality mapping from the inception of the lending of the loan or advance. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incured at the statement of financial position date based on objective evidence of impairment.

The impairment allowance shown in the statement of financial position at the year-end is derived after taking various factors into consideration as described in the accounting policy. The Bank's management uses basis under IFRS 9 and The Financial Institutions (credit classification and provisioning) Regulation, 2005 to determine the amount of impairment.

Loans and advances neither past due nor impaired, past due but not impaired and individually impaired

	2018 USh '000	2017 USh '000
Neither past due nor impaired	113,989,121	79,957,516
Past due but not impaired	14,396,769	5,769,993
Individually impaired	-	431,432
Gross advances	**128,385,890**	**86,158,941**
Less: allowance for impairment	(1,048,452)	(517,133)
Net loans and advances	**127,337,438**	**85,641,808**

Loans and advances that are due upto 89 days are considered past due but not impaired. Loans and advances that are post 90 days are considered impaired.

The credit quality of the portfolio of loans and advances that were past due but not impaired can be assessed by reference to the internal rating system adopted by the Bank.

The loans and advances past due but not impaired can be analysed as follows:

	2018 USh '000	2017 USh '000
Overdrafts	4,174,608	152,938
Commercial loans	10,222,161	5,617,055
	14,396,769	**5,769,993**

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a substandard status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the credit committee indicate that payment will most likely continue. These policies are kept under continuous review.

- Exposure to credit risk

The 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 other financial assets based on the following:

- The maximum exposure to credit risk arises from loans and advances to customers which form 62.28% (2017: 50.70%) of total assets; 12.82% (2017: 28.24%) represents investments in government securities.
- 100% (2017: 99.88%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system (Normal and Watch).
- 11.71 % (2017: 6.74%) of the loans and advances portfolio are considered to be past due but not impaired.
- Most of its loans and advances to customers are performing as per the respective covenants. Non-performing loans and advances have been provided for. The loans and advances are also secured.
- Cash in hand, balances with Central Bank of Kenya and placements with other banking institutions are held with sound financial institutions.

Notes to the Financial Statements

4. **Financial risk management (continued)**
   - Government securities are considered stable investments as the risk is considered negligible.
   - Management considers the historical information available to assess the credit risk on investment securities.

Concentration of credit risk

Economic sector risk concentrations within the loans and advances portfolio are as follows:

Economic sector	2018 USh '000	2018 %	2017 USh '000	2017 %
Agriculture	20,707,752	16.16 %	4,696,436	5.45 %
Manufacturing	14,923,255	11.65 %	11,915,693	13.83 %
Trade & Commerce	36,645,886	28.60 %	22,496,878	26.12 %
Building & Construction	43,636,014	34.05 %	34,023,370	39.50 %
Business Services	6,675,545	5.21 %	8,197,678	9.52 %
Community social & other services	1,517,535	1.18 %	1,130,665	1.31 %
Personal and household loans	4,036,633	3.15 %	3,675,125	4.27 %
	128,142,620	**100.00 %**	**86,135,845**	**100.00 %**

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 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 maturity 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 and exchange rates.

The Bank does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with high level of certainty. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews thematurity profile on a weekly basis and ensures that sufficient liquidity is maintained to meet maturing deposits which substantially are generally rolled over into new deposits. The Bank fully complies with the Bank of Uganda's liquidity ratio requirements of 20% (2017: 20%), with the average liquidity maintained at 41.33% (2017: 43.91%) during the year.

The table overleaf analyses the Bank's financial assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

4. Financial risk management (continued)

At December 31, 2018

	Upto 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	USh '000	USh '000	USh '000	USh '000	USh '000	USh '000
Assets						
Cash in hand	4,061,890	-	-	-	-	4,061,890
Balances with Bank of Uganda	23,784,758	-	-	-	-	23,784,758
Government securities	1,005,153	5,204,030	12,389,777	3,887,262	-	22,486,222
Deposit and balances due from other banking institutions	18,445,011	3,726,197	-	-	-	22,171,208
Other assets	2,701,902	-	-	-	-	2,701,902
Loans and advances to customers	11,988,398	5,155,119	40,649,390	70,593,915	-	128,386,822
Total assets	61,987,112	14,085,346	53,039,167	74,481,177	-	203,592,802
Liabilities and shareholders' equity						
Customer deposits	40,220,730	6,008,588	49,974,832	6,666,942	-	102,871,092
Deposits from other banking institutions	3,745,000	23,776,000	34,068,272	-	-	61,589,272
Other liabilities	1,153,246	-	-	-	-	1,153,246
Total liabilities and equity	45,118,976	29,784,588	84,043,104	6,666,942	-	165,613,610
Net liquidity gap	**16,868,136**	**(15,699,242)**	**(31,003,937)**	**67,814,235**	**-**	**37,979,192**
Off balance sheet items	4,435,586	2,022,110	12,255,610	7,647,511	-	26,360,817
Net liquidity gap	12,432,550	(17,721,352)	(43,259,547)	60,166,724	-	11,618,375

At December 31, 2017

	Upto 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Total assets	48,094,799	19,203,910	40,736,723	48,383,894	12,483,057	168,902,383
Total liabilities and equity	46,681,548	23,513,716	53,440,997	8,585,617	36,680,505	168,902,383
Net liquidity gap	**1,413,251**	**(4,309,806)**	**(12,704,274)**	**39,798,277**	**(24,197,448)**	**-**
Off balance sheet items	6,834,810	4,087,015	17,820,997	78,856	-	28,821,678
Net liquidity gap	(5,421,559)	(8,396,821)	(30,525,271)	39,719,421	(24,197,448)	(28,821,678)

Notes to the Financial Statements

4. Financial risk management (continued)

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 the return on risk. Overall responsibility for managing market risk rests with the Board Assets and Liabilities Committee (ALCO).

Stress test

Stress test provides an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Treasury/ Risk Management department include: risk factor, stress testing where stress movements are applied to each risk category, emerging market stress testing, where emerging market portfolios are subject to stress movements and adhoc stress testing, which includes applying possible stress events to specific positions or regions - for example the stress outcome to a region following currency peg break. The results of the stress tests are reviewed by senior management and board in each business unit. The stress test is tailored to the business and typically uses scenario analysis.

Foreign exchange risk

The bank is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar, Euro and GBP. The risk arises from future transactions, assets and liabilities in the statement of financial position date.

The table below summarises the effect on post-tax profit and components of equity had the Uganda Shillings weakened by 10% against each currency, with all other variables held constant. If the Uganda Shilling strengthened against each currency, the effect would have been the opposite.

	Effect on profit increase (decrease)		Effect on equity increase (decrease)	
Financial instrument	2018	2017	2018	2017
US Dollar	643	91,017	643	91,017
Euro	43	343	43	343
GBP	11	912	11	912
Others	20	12,064	20	13,064

Currency risk

The bank is exposed to currency risk through transactions in foreign currencies. The bank`s transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. In respect of monetary assets and liabilities in foreign currencies, the bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The significant currency positions are detailed below:

Notes to the Financial Statements

4. Financial risk management (continued)

At December 31, 2018

	USD	GBP	EURO	KSH	Others	Total
	USh '000	USh '000	USh '000	USh '000	USh '000	USh '000
Assets						
Cash and balances with Bank of Uganda	10,446,989	-	-	-	17,399,660	27,846,649
Loans and advances to customers	93,940,505	-	-	-	34,446,318	128,386,823
Amounts due from overseas branches of parent company	541,337	45,708	50,230	19,622	77	656,974
Deposits and balances due from other financial institutions	20,975,061	-	-	-	23,025,396	44,000,457
Other assets	421,720	-	-	-	4,063,527	4,485,247
Total assets	126,325,612	45,708	50,230	19,622	78,934,978	205,376,150
Liabilities and shareholders' equity						
Customer deposits	82,605,020	34,245	6,850	-	39,090,529	121,736,644
Balances due to banks abroad	42,722,500	-	-	-	-	42,722,500
Other liabilities	354,292	-	-	-	2,092,755	2,447,047
Total liabilities and equity	125,681,812	34,245	6,850	-	41,183,284	166,906,191
Net balance sheet position	**643,800**	**11,463**	**43,380**	**19,622**	**37,751,694**	**38,469,959**
Off balance sheet net notional position	14,451,289	-	-	-	11,909,528	26,360,817
Overall position	(13,807,489)	11,463	43,380	19,622	25,842,166	12,109,142

At December 31, 2017

	USD	GBP	EURO	KSH	Others	Total
Total assets	95,259,258	525,260	4,376	-	73,113,489	168,902,383
Total liabilities and equity	96,169,430	516,143	946	-	72,215,864	168,902,383
Net balance sheet position	**(910,172)**	**9,117**	**3,430**	**-**	**897,625**	**-**
Net Off balance sheet position	13,654,554	-	-	-	15,167,125	28,821,679
Overall position	12,744,382	9,117	3,430	-	16,064,750	(28,821,679)

Exchange rates used for conversion of foreign items were:

US Dollar	3,715.00	3,635.00
GBP	4,751.00	4,889.00
Euro	4,246.00	4,340.00
INR	53.26	56.98
KSh.	36.46	35.23

4. Financial risk management (continued)

Interest rate risk

The bank`s operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in different amounts. Risk management activities are aimed at optmizing net interest income, given market interest rates levels consistent with the bank`s business strategies.

The bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitor the interest rate trends to minimise the potential adverse impact of interest rate changes.

The table below summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not have any derivative financial instruments. The bank does not bear an interest rate risk on off balance sheet items.

At December 31, 2018

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
	USh '000	USh '000	USh '000	USh '000	USh '000
Assets					
Investment with Bank of Uganda	1,005,153	5,204,030	12,389,777	3,887,262	22,486,222
Loans and advances to customers	11,988,398	5,155,119	40,649,390	70,593,915	128,386,822
Deposits and balances due from other financial institutions	14,944,208	3,726,197	-	606,744	19,277,149
Total assets	27,937,759	14,085,346	53,039,167	75,087,921	170,150,193
Liabilities					
Customer deposits	17,743,070	12,916,025	49,974,832	6,666,912	87,300,839
Balances due to banks Local	-	27,491,000	34,098,304	-	61,589,304
Total liabilities and equity	17,743,070	40,407,025	84,073,136	6,666,912	148,890,143
Interest sensitivity gap	**10,194,689**	**(26,321,679)**	**(31,033,969)**	**68,421,009**	**21,260,050**

At December 31, 2017

Total assets	36,911,190	19,203,910	33,422,901	54,959,967	168,902,383
Total liabilities	22,521,405	23,513,716	53,442,977	8,583,637	108,061,735
Interest sensitivity gap	**14,389,785**	**(4,309,806)**	**(20,020,076)**	**46,376,330**	**60,840,648**

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. Management is of the view that the mismatch does not subject the bank to severe liquidity risks because maturities for all government securities and balances with overseas banks can be restructured in accordance with business demands.

The table below summarises the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

4. Financial risk management (continued)

2018 **Particulars**	**USh**	**USD**
Government Securities	12.57 %	- %
Deposits and balances due from banking institutions	- %	2.15 %
Loans and advances to customers	18.20 %	8.70 %
Customer deposits	7.62 %	2.37 %

2017 **Particulars**	**USh**	**USD**
Government Securities	15.88 %	- %
Deposits and balances due from banking institutions	- %	1.25 %
Loans and advances to customers	19.55 %	9.08 %
Customer deposits	9.78 %	2.65 %

The bank has various financial assets and liabilities at variable rates, which expose the bank to cash flow interest rate risk. The bank regularly monitors financing options available to ensure optimum interest rates are obtained.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising out of legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from the bank's operations and is faced by all other business entities. The bank endeavours to manage the operational risk by creating a balance between avoidance of cost or financial losses and damage to the bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development policies and programs to implement the bank's operational risk management is with the senior policies and programs to implement the bank's operational risk management is with the senior management of the bank.

The above is tried to be achieved by development of overall standards for the bank to manage the risk in the following areas:

- Segregation of duties including independent authorisation of transactions
- Monitoring and reconciliation of transactions
- Compliance of regulatory and legal requirement
- Documentation of control and procedure
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plan
- Giving training to staff to improve their professional competency
- Ethical and business standards
- Obtaining insurance wherever feasible, as a risk mitigation measure.

Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively managed by management to ensure compliance with the bank's risk limits. The bank's risk limits are assessed regularly to ensure their appropriateness given its objectives and strategies and current market conditions. A variety of techniques are used by the bank in measuring the risks inherent in its trading and non-trading positions.

Notes to the Financial Statements

	2018 USh '000	2017 USh '000
5. Interest income		
Loans and advances	12,133,516	8,989,139
Government securities	2,686,034	4,824,256
Placement of Deposits	1,384,221	1,331,493
	16,203,771	**15,144,888**
6. Interest expense		
Savings accounts	169,253	373,852
Time deposits	5,031,962	5,479,528
Others	35,303	16,318
	5,236,518	**5,869,698**
7. Non interest income / other income		
Gains less losses arising from dealing in foreign currencies	287,694	97,459
Profit on sale of assets	21,000	-
Recoveries from written off loans	-	1,072
	308,694	**98,531**
8. Administration and operating expenses		
Auditors remuneration - external auditors	87,674	85,786
Directors' emoluments as executives	91,564	61,512
Depreciation, amortisation and impairments	779,110	608,583
Employee benefits expenses (Note 8)	2,585,572	2,426,027
Other operating expenses	3,069,382	1,863,890
Rents and rates	857,478	932,776
	7,470,780	**5,978,574**
9. Employee costs		
Employee costs		
Salaries and wages	1,815,219	1,703,188
Staff Allowances	582,816	491,862
Pension & National Social Security Fund Employer contributions	187,537	230,977
	2,585,572	**2,426,027**

Notes to the Financial Statements

	2018 USh '000	2017 USh '000
10. Impairment allowance on loans and advances and other credit risk provision		
Net impairment provision under IFRS 9	(116,742)	29,398
Loans and advances written-off	(248,956)	(13,605)
	(365,698)	**15,793**
11. Taxation		
Major components of the tax expense		
Current		
WHT as final tax	617,902	1,170,594
Deferred		
Originating and reversing temporary differences (Note 16)	758,769	40,589
	1,376,671	**1,211,183**
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting profit	5,494,678	4,761,303
Tax at the applicable tax rate of 30% (2017: 30%)	1,648,403	1,428,391
Tax effect of adjustments on taxable income		
Prior period error	(72,166)	-
WHT as final tax	617,902	1,170,594
Income subject to final tax	(790,749)	(1,447,276)
Expense not deductible for tax purpose	(26,719)	59,474
	1,376,671	**1,211,183**
12. Cash and balances with Bank of Uganda		
Cash and cash equivalents consist of:		
Cash on hand	4,061,890	1,570,226
Balances with Bank of Uganda	23,784,758	13,758,759
	27,846,648	**15,328,985**

Balances with Bank of Uganda include the mandatory deposits which are advised fortnightly by the Central Bank based on the deposit balances held for the past two weeks. As at December 31, 2018, the mandatory deposits were 8% of total deposits (2017: 8% of total deposits).

	2018 USh '000	2017 USh '000
13. Government securities and placements		
Held-to-maturity		
Treasury bills - held to maturity	-	26,779,933
Treasury bills - at amotised cost	21,481,070	-
	21,481,070	**26,779,933**

Notes to the Financial Statements

	2018 USh '000	2017 USh '000
13. Government securities and placements (continued)		
Due from other financial institutions and BOU		
Placement with other financial institutions	3,726,197	7,313,822
Placement with Bank of Uganda	1,005,153	13,609,281
	4,731,350	20,923,103
Government securities and placements (impairments)	(5,377)	-
	4,725,973	**20,923,103**
Total Government securities and placements	**26,207,043**	**47,703,036**
Treasury bills - held to maturity	-	26,779,933
Treasury bills - at amotised cost	21,481,070	-
Due from other financial institutions and BOU	4,725,973	20,923,103
	26,207,043	**47,703,036**
Reconciliation of impairment allowance on Government securities and placements		
Treasury bills		
Change on initial application of IFRS 9	2,678	-
Impairment charge	(622)	-
	2,056	-
Due from other financial institutions and BOU		
Change on initial application of IFRS 9	4,200	-
Impairment charge	(879)	-
	3,321	-

The bank has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2018 and 2017, as all the financial assets were disposed of at their redemption date.

	2018 USh '000	2017 USh '000
14. Loans and advances to customers (net)		
Overdrafts	46,672,716	25,083,920
Commercial loans	80,420,520	60,531,620
Interest receivables	244,202	26,268
Gross loans and advances to customers	127,337,438	85,641,808
Loans and advances to customers net of impairment	**127,337,438**	**85,641,808**
Reconciliation of impairment allowance on loans and advances		
Opening balance	517,133	546,531
Change on initial application of IFRS 9	414,577	-
Impairment charge	116,742	(29,398)
Closing balance	**1,048,452**	**517,133**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of non-performing loans at 31 December 2018 was USh 14,397million (2017: USh 5,769 million) on which provision of USh 246 million (2016: USh 517 million).

es to the Financial Statements

	2018 USh '000	2017 USh '000

oans and advances to customers (net) (continued)

nagement is of the opinion that general provision as above for normal accounts is adequate to cover any accounts night become delinquent in the future.

e from related parties

	2018 USh '000	2017 USh '000
India - London - GBP	45,708	525,260
India - New York - US Dollar	541,337	624,606
India - Paris - Euro	50,230	4,376
ndia - Nairobi - Kshs	19,622	65,439
ndia - Mumbai - INR	77	55,205
	656,974	1,274,886
nt of loans to fellow subsidiaries	(278)	-
	656,696	**1,274,886**

ation of impairment allowance on due to related parties

	2018 USh '000	2017 USh '000
n initial application of IFRS 9	128	-
nt charge	150	-
	278	-

sit and balances due from other financial institutions

	2018 USh '000	2017 USh '000
ank (U) Limited	1,424,039	8,097
hartered Bank Limited	1,354,318	1,885,463
oda (Uganda) Limited	14,944,208	11,153,124
Jganda) Limited	65,471	-
	17,788,036	13,046,684
of deposit and balances due from other financial institutions	(3,551)	-
	17,784,485	**13,046,684**

n of impairment allowance on deposit and balances due from other financial institutions

	2018 USh '000	2017 USh '000
tial application of IFRS 9	2,609	-
arge	942	-
	3,551	-

sets

	2018 USh '000	2017 USh '000
t	103,837	199,343
	246,057	344,488
	5,706	12,433
	532,188	1,567,051
	887,788	**2,123,315**

Notes to the Financial Statements

	2018 USh '000	2017 USh '000
13. Government securities and placements (continued)		
Due from other financial institutions and BOU		
Placement with other financial institutions	3,726,197	7,313,822
Placement with Bank of Uganda	1,005,153	13,609,281
	4,731,350	20,923,103
Government securities and placements (impairments)	(5,377)	-
	4,725,973	**20,923,103**
Total Government securities and placements	**26,207,043**	**47,703,036**
Treasury bills - held to maturity	-	26,779,933
Treasury bills - at amotised cost	21,481,070	-
Due from other financial institutions and BOU	4,725,973	20,923,103
	26,207,043	**47,703,036**

Reconciliation of impairment allowance on Government securities and placements

	2018	2017
Treasury bills		
Change on initial application of IFRS 9	2,678	-
Impairment charge	(622)	-
	2,056	**-**
Due from other financial institutions and BOU		
Change on initial application of IFRS 9	4,200	-
Impairment charge	(879)	-
	3,321	**-**

The bank has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2018 and 2017, as all the financial assets were disposed of at their redemption date.

14. Loans and advances to customers (net)

	2018	2017
Overdrafts	46,672,716	25,083,920
Commercial loans	80,420,520	60,531,620
Interest receivables	244,202	26,268
Gross loans and advances to customers	127,337,438	85,641,808
Loans and advances to customers net of impairment	**127,337,438**	**85,641,808**

Reconciliation of impairment allowance on loans and advances

	2018	2017
Opening balance	517,133	546,531
Change on initial application of IFRS 9	414,577	-
Impairment charge	116,742	(29,398)
Closing balance	**1,048,452**	**517,133**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of non-performing loans at 31 December 2018 was USh 14,397million (2017: USh 5,769 million) on which provision of USh 246 million (2016: USh 517 million).

Notes to the Financial Statements

	2018 USh '000	2017 USh '000

14. Loans and advances to customers (net) (continued)

The management is of the opinion that general provision as above for normal accounts is adequate to cover any accounts which might become delinquent in the future.

15. Due from related parties

	2018 USh '000	2017 USh '000
Bank of India, London - GBP	45,708	525,260
Bank of India, New York - US Dollar	541,337	624,606
Bank of India, Paris - Euro	50,230	4,376
Bank of India, Nairobi - Kshs	19,622	65,439
Bank of India, Mumbai - INR	77	55,205
	656,974	1,274,886
Impairment of loans to fellow subsidiaries	(278)	-
	656,696	**1,274,886**

Reconciliation of impairment allowance on due to related parties

	2018 USh '000	2017 USh '000
Change on initial application of IFRS 9	128	-
Impairement charge	150	-
	278	-

16. Deposit and balances due from other financial institutions

	2018 USh '000	2017 USh '000
Barclays Bank (U) Limited	1,424,039	8,097
Standard Chartered Bank Limited	1,354,318	1,885,463
Bank of Baroda (Uganda) Limited	14,944,208	11,153,124
Post Bank (Uganda) Limited	65,471	-
	17,788,036	13,046,684
Impairment of deposit and balances due from other financial institutions	(3,551)	-
	17,784,485	**13,046,684**

Reconciliation of impairment allowance on deposit and balances due from other financial institutions

	2018 USh '000	2017 USh '000
Change on initial application of IFRS 9	2,609	-
Impairment charge	942	-
	3,551	-

17. Other assets

	2018 USh '000	2017 USh '000
Security deposit	103,837	199,343
Prepayments	246,057	344,488
Others	5,706	12,433
Net clearing	532,188	1,567,051
	887,788	**2,123,315**

Notes to the Financial Statements

	2018 USh '000	2017 USh '000

18. Deferred tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2017: 30%). The movement on the deferred income tax account is as follows:

	2018 USh '000	2017 USh '000
Deferred tax asset (liability)	1,073,902	1,705,416

Reconciliation of deferred tax asset / (liability)

	2018 USh '000	2017 USh '000
At beginning of year	1,705,416	1,746,004
Increases (decrease) in tax loss available for set off against future taxable income	(476,129)	185,607
Taxable / (deductible) temporary difference movement on tangible fixed assets	(1,787)	(62,478)
Provisions	(353,719)	(163,821)
Taxable / (deductible) temporary difference on unrealised forex differences	-	104
Prior period error	200,121	-
	1,073,902	**1,705,416**

19. Property, plant and equipment

	2018			2017		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Electrical fittings	636,986	(484,841)	152,145	633,392	(413,236)	220,156
Furniture and fixtures	511,938	(335,604)	176,334	505,430	(272,214)	233,216
Motor vehicles	160,000	(74,375)	85,625	216,000	(90,375)	125,625
Office equipment	340,896	(263,627)	77,269	340,896	(229,087)	111,809
IT equipment	1,976,441	(897,213)	1,079,228	1,509,927	(478,758)	1,031,169
Leasehold improvements	1,487,023	(1,274,280)	212,743	1,479,438	(1,123,160)	356,278
Total	**5,113,284**	**(3,329,940)**	**1,783,344**	**4,685,083**	**(2,606,830)**	**2,078,253**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Depreciation	Total
Electrical fittings	220,156	3,594	(71,605)	152,145
Furniture and fixtures	233,216	6,508	(63,390)	176,334
Motor vehicles	125,625	-	(40,000)	85,625
Office equipment	111,809	-	(34,540)	77,269
IT equipment	1,031,169	466,514	(418,455)	1,079,228
Leasehold improvements	356,278	7,585	(151,120)	212,743
	2,078,253	**484,201**	**(779,110)**	**1,783,344**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Depreciation	Total
Electrical fittings	244,384	73,247	(97,475)	220,156
Furniture and fixtures	286,628	9,145	(62,557)	233,216
Motor vehicles	34,375	105,000	(13,750)	125,625
Office equipment	146,076	12,608	(46,875)	111,809
IT equipment	132,590	1,037,511	(138,932)	1,031,169
Leasehold improvements	549,673	55,599	(248,994)	356,278
	1,393,726	**1,293,110**	**(608,583)**	**2,078,253**

Notes to the Financial Statements

	2018 USh '000	2017 USh '000

20. Share capital

Authorised		
2,700,000 Ordinary shares of USh 10,000 each	2,700,000	2,700,000
Issued		
Ordinary	27,000,000	27,000,000

21. Regulatory general credit risk reserve

The regulatory general credit risk reserve represents an appropriation from retained earnings / accumulated losses to comply with Bank of Uganda's Prudential Regulations. The balance in the reserve represents the excess of impairment allowance determined in accordance with the Prudential Regulations over the impairment provisions recognized in accordance with the Bank's accounting policy. The reserve is non-distributable in nature.

	2018	2017
At the begining of the year	429,904	364,351
Transfered (to) from retained earning	(185,783)	65,553
At the end of the year	**244,121**	**429,904**

Reconcilaition of BoU and IFRS impairment allowance

As at December 31, 2018

	Impairment allowance as per IFRS (USh '000)	Impairment allowance as Per BOU (USh '000)	Credit Risk Reserve (USh '000)
Opening balance as at January 1, 2018	517,133	947,038	429,905
Change on initial application of IFRS 9	414,577	-	(414,577)
Increase / (Decrease) during the year	116,742	345,535	228,793
	1,048,452	**1,292,573**	**244,121**

Reconcilaition of BOU and IFRS impairment allowance
As at December 31, 2017

	Provisions as per IFRS (USh '000)	Provisions as Per BOU (USh '000)	Credit Risk Reserve (USh '000)
Opening balance as at January 1, 2017	546,531	910,882	364,351
Increase / (Decrease) during the year	(29,398)	36,156	65,554
	517,133	**947,038**	**429,905**

22. Due to related parties

	2018	2017
Held at amortised cost		
From Foreign Financial Institutions	39,007,500	18,175,000

The weighted average effective rate of interest on foreign bank borrowings as at December 31 2018 was 3.02% (2017:1.31%).

	2018	2017
Current liabilities		
At amortised cost	39,007,500	18,175,000

Notes to the Financial Statements

	2018 USh '000	2017 USh '000
23. Customer deposits		
Current and demand accounts	15,569,289	24,160,142
Savings accounts	17,687,330	16,377,598
Term deposits	92,195,925	73,509,139
	125,452,544	**114,046,879**
Analysis of customer deposits by maturity		
Payable within 90 days	46,229,318	52,020,264
Payable after 90 days and within one year	79,223,227	62,026,614
	125,452,545	**114,046,878**

The weighted average effective interest rate on interest bearing deposits in local currency as on December 31 2018 was 7.62% (2017: 9.78%).

The weighted average effective interest rate on interest bearing deposits in foreign currency as on December 31 2018 was 2.37% (2017: 2.65%).

Concentration

	2018 %	**2017** %
Private enterprises	26.44 %	12.00 %
Other Financial Institutions	21.92 %	10.39 %
Others	51.64 %	77.61 %
	100.00 %	**100.00 %**

24. Other liabilities

Bankers cheques payable	33,510	50,361
Other Govt. dues payable	33,047	58,270
Withholding tax payable	467,440	555,435
Accrued expenses	500,447	733,053
Others	176,675	118,276
	1,211,119	**1,515,395**

25. Other asset

Cash and balances with Bank of Uganda	27,846,648	15,328,985
Cash reserve requirement	(13,100,000)	(10,150,000)
Government securities maturing within 90 days of the date of acquisition (Note 11)	4,928,492	10,972,646
Placements with other banks maturing within 90 days	4,731,350	13,500,000
Amounts due from overseas branches of parent company	656,696	1,274,886
Deposits and balances due from other banks (Note 14)	17,784,485	13,046,684
	42,847,671	**43,973,201**

For the purposes of the statement of cash flow, 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 balance with the Bank of Uganda the usage of which is subject to restrictions. The amount is determined as a percentage of the average outstanding deposits over a cash reserve cycle period of two weeks.

Notes to the Financial Statements

	2018 USh '000	2017 USh '000

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 statement of financial position.

	2018 USh '000	2017 USh '000
Contingent liabilities		
Guarantees	11,170,092	11,220,390
Letters of credit	2,659,438	3,190,275
Impairement of contingent liabilities	(30,403)	-
	13,799,127	**14,410,665**
Reconciliation of impairment allowance on contingent liabilites		
Change on initial application of IFRS 9	24,512	
Impairement charge	5,891	
	30,403	

	2018 USh '000	2017 USh '000
Commitments		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	11,237,375	12,549,196
Document sent for collection	1,293,913	1,861,817
Impairment charge	(22,249)	-
	12,509,039	**14,411,013**
Reconciliation of impairment allowance on commitments		
Change on initial application of IFRS 9	32,216	
Impairement charge	(9,967)	
	22,249	

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.

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.

27. ECL Reconciliation

Loans and Advances	**Stage 1 Collective**	**Stage 2 Individual**	**Stage 3**	**Total**
ECL allowance for loans and advances as at January 01, 2018 under IFRS 9	616,126	172,569	86,286	874,981
New assets originated or purchased	175,350	-	-	175,350
Assets dercognised or repaid (exculding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	151,595	-	151,595
Recoveries	(41,312)	(78,527)	-	(119,839)
Amount written off	-	-	(86,286)	(86,286)
As at December 31, 2018	**750,164**	**245,637**	-	**995,801**

Notes to the Financial Statements

	2018 USh '000	2017 USh '000

27. ECL Reconciliation (continued)

Off Balance Sheet	Stage 1 Collective	Stage 2 Individual	Stage 3	Total
ECL allowance for loans and advances as at January 01, 2018 under IFRS 9	56,728	-	-	56,728
New assets originated or purchased	6,568	-	-	6,568
Assets dercognised or repaid (exculding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Recoveries	(10,644)	-	-	(10,644)
As at December 31, 2018	**52,652**	**-**	**-**	**52,652**

Other Financial Intruments	Stage 1 Collective	Stage 2 Individual	Stage 3	Total
ECL allowance for loans and advances as at January 01, 2018 under IFRS 9	9,614	-	-	9,614
New assets originated or purchased	2,094	-	-	2,094
Assets dercognised or repaid (exculding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Recoveries	(2,502)	-	-	(2,502)
As at December 31, 2018	**9,206**	**-**	**-**	**9,206**

The reasons for changes in loss allowance are as under :

- The outstanding under financial instruments have undergone changes.
- The loan portfolio has undergone change due to new loans sanctioned, closure, recoveries and write off.
- There has been change in the principal / collateral securities available for loan portfolio
- There has been changes in different stages viz Stage 1, 2 & 3
- There has been no change in the composition of portfolio or the class of financial instruments.
- There has been no change in the PD & LGD of financial assets

28. Commitments

Operating leases – as lessee (expense)

Minimum lease payments due	2018 USh '000	2017 USh '000
- within one year	854,064	801,604
- in second to fifth year inclusive	3,416,255	3,206,419
- later than five years	-	801,604
	4,270,319	**4,809,627**

Notes to the Financial Statements

	2018 USh '000	2017 USh '000

29. Related parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over that party's financial or operational decisions. Bank of India, Mumbai controls 100% of the total voting rights in the bank. There are other companies which are related to Bank of India (Uganda) Limited through common shareholdings or common directorships. In the normal course of business, current accounts are operated and placements made between the Subsidiary companies at interest rates in line with market.

The outstanding balances arising from transactions with related parties during the year are as follows:

Related party transactions

	2018 USh '000	2017 USh '000
Key management compensation		
Salaries and other short-term employment benefits	-	387,974

Related party balances

	2018 USh '000	2017 USh '000
Amounts (due to) / from overseas branches of parent bank		
Bank of India, London - GBP	45,708	525,260
Bank of India, New York - USD	541,337	624,606
Bank of India, Paris - Euro	50,230	4,376
Bank of India, Nairobi - KSh.	19,622	65,439
Bank of India, Mumbai - INR	77	55,205
Money market (borrowings\Deposits) \ placements		
Bank of India, London	(20,432,500)	(3,635,000)
Bank of India, Jersey	-	(3,635,000)
Bank of India, New York	(18,575,000)	-

30. Events after the reporting period

The management of the bank are not aware of any events after the reporting period; which may have a significant impact on the operational existence or on the financial performance of the bank for the year.

31. Comparative figures

Previous year's figures have been regrouped / reclassified wherever necessary in order to make them comparable with that of current financial period.