Turkana. Kenya
Leather, vegetal fibres. 27.5 x 33.5 cm. 1,069g.

The Turkana create various vessels from natural materials, such as leather, fibre, gourds, etc.

This pot, made out of camel hide, contains animal fat which girls and women apply to their skin and which is also used to make leather used for clothing more supple. To obtain this shape, the hide is sewn, and resulting pouch is filled with sand and then hit with a stick. Once it had dried the sand is poured away and the pot keeps its shape. A handle in plaited leather makes it easy to transport. The neck of the vessel is strengthened with vegetal fibres sown around the leather. The pot is often covered with a wooden lid.

Inventory No.: 71.1903.33.243

Managing Director's Message

Financial year 2006 was characterised by a slow down in economic activity, rising inflation and interest rates and an appreciation of the Uganda Shilling against the US Dollar. Notable causes were the current electricity crisis, uncertainty in the first quarter of the year as a result of national elections, adverse weather conditions, rising food prices, tight liquidity conditions and excess dollar liquidity supply over demand in the market.

Despite the economic conditions, Uganda's banking sector remained stable with growing public confidence as reflected in growth in customer deposits and bank assets. Prudent risk management systems instituted by banks coupled with strong recovery efforts and a strong supervisory framework continued to ensure lower ratios of non-performing assets to total advances. Key developments included an IPO by one bank and an acquisition by another.

In a bid to bolster private sector development, Government has restructured the Uganda Development Bank to provide long term credit that is not currently available from commercial banks. In addition, Savings and Credit Cooperative Organisations are set to be financially supported by Government to deepen financial service delivery and promote a savings culture.

Against the above backdrop, the bank focused on three major operational and investment strategies aimed at achieving a sounder financial position and enhanced earnings capability in the long term. First, the bank rationalised its organisation and physical infrastructure in January 2006 by changing the delivery pattern of its services through newly created business lines as opposed to the former functional structure. Secondly, in July 2006, the fit-out of its new head office premises was commenced and was completed as the year came to a close. Finally, in October 2006, the bank joined the BANK OF AFRICA group with the acquisition of the 77.82% Banque Belgolaise shareholding by BANK OF AFRICA, Aureos East Africa Fund LLC, and Central Holdings Ltd. FMO continues to hold 22% in the ownership of the bank. Accordingly, the Bank changed its brand identity and image to reflect its integration into the BANK OF AFRICA group.

As a result of the above actions, total assets grew by 20% to Shs 84 billion with growth noted in treasury and credit operations. Net profit increased by 39% to Shs 1.8 billion as a result of growth in net interest income as well as fees and commissions. On the other hand, operating expenses increased by 12% on account of higher utility tariffs and a growing headcount, but despite this, the bank's return on average shareholder's equity was 21% up from 18% in 2005.

The bank contributed to a number of charitable causes by way of sponsorships and donations. Significant contribution was made to the education, health, cultural, sports and social sectors. Some of the corporate social responsibility initiatives the bank participated in included support to the Internally Displaced People of Northern Uganda, partnering with the Lions Club to support the disabled and several initiatives with a number of schools in Uganda.

The bank is set to further make its mark in the financial services sector in 2007 with the entry of the BANK OF AFRICA Group. Through this new and diversified ownership, a seamless and truly Pan-African service will be made possible. The operations of the bank shall be elevated to the next level in terms of quality of service, and innovative product offerings. The bank's emphasis will be on meeting our customers' service standards under our new business model that is an improvement on what was implemented in 2006.

We thank our customers for their loyalty and continued business with BANK OF AFRICA - UGANDA Ltd. and wish to assure them of our commitment to strengthen our partnership and in growing their business as we move forward together. We also thank our staff and management for their continued dedication in providing quality services to our customers.

Kwame Ahadzi

Key facts 2006

January

- Change in service delivery from functional to business line concept

February

- Implementation of financial management reporting software - SMR

April

- Appointment of PricewatehouseCoopers as new auditors, succeeding Ernst and Young in accordance with local regulations

May

- Performance scan and training carried out by NFX/ING in several areas including Asset and Liability Management, Bank Marketing, Product Development and Branding, Project/Change Management and Organisation, as well as training related to the Risk Management Framework.

June

- Commencement of the fit-out of the bank's new head office premises

October

- Acquisition of shareholding by Bank of Africa Group, Aureos East Africa Fund LLC, and Central Holdings Limited. Exit of Banque Belgolaise.

December

- Change of name to BANK OF AFRICA - UGANDA Ltd.

Key figures 2006 (in UGX '000)

At 31 December 2006

Activity	
Deposits	60 553 535
Loans	30 975 458

Income	
Operating income	10 029 956
Operating expenses	7 809 790
Profit before income tax	2 220 166

Structure	
Total Assets	84 346 205
Average number of employees	122

(1 EURO = 2,250 UGX)

Board of Directors

The members of the Board of Directors were as follows:

- Mr. John Carruthers, Chairman
- Mr. Kwame Ahadzi, Managing Director
- Mr. Christopher Kigenyi , Executive Director
- Mr. Mohan Kiwanuka, Member
- Mr. Jean François Beyer, Member
- Mr. Vincent de Brouwer, Member
- Mr. Guido Boysen, Member

Capital

The authorised share capital of the bank is UGX 5,000,000,000 with a par value of UGX 1,000 per share.

The issued and paid share capital is UGX 4,000,994,000. The bank's shareholding structure as at 31 December 2006 was as follows:

BANK OF AFRICA - KENYA	46%
erlands Development Finance Company (FMO)	22%
Aureos East Africa Fund LLC	22%
Central Holdings Uganda Ltd.	10%

Report of the independent auditors

Report on the financial statements

We have audited the accompanying financial statements of BANK OF AFRICA - UGANDA Limited, set out on pages 9 to 41. These financial statements comprise the balance sheet at 31 December 2006, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Bank's financial affairs at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Uganda Companies Act and the Financial Institutions Act 2004.

Report on other legal requirements

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

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

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

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

PriceWaterhouseCoopers
Certified Public Accountants

Balance sheet

(All amounts in thousand Uganda Shillings unless otherwise stated)

Assets

	At 31 December	
	2006	2005
Assets		
Cash and balances with the central bank	10 405 487	6 790 967
Government securities	15 817 055	18 607 669
Amounts due from banks	17 921 660	13 077 027
Loans and advances to customers	30 975 458	25 563 861
Derivative financial instruments	71 378	-
Investment securities	501 990	501 711
Intangible assets	100 189	61 382
Property, plant and equipment	4 695 244	3 419 540
Prepaid operating lease rentals	1 200 480	6 849
Current income tax assets	574 702	373 505
Deferred income tax assets	-	13 577
Other assets	2 082 562	1 949 828
Total assets	**84 346 205**	**70 365 916**

Liabilities

Liabilities		
Amounts due to banks	7 396 052	1 441 776
Amounts due to customers	60 553 535	56 924 201

Other borrowed funds	2 961 032	1 509 257
Other liabilities	3 020 311	1 767 713
Provisions	217 579	228 380
Deferred income tax liabilities	138 061	-
Retirement benefit obligations	460 681	731 903
Total liabilities	**74 747 251**	**62 603 230**

Equity

EQUITY		
Share capital	4 000 994	4 000 994
Retained earnings	5 216 821	3 740 786
Other reserves	381 139	20 906
Total equity	**9 598 954**	**7 762 686**
Total equity and liabilities	**84 346 205**	**70 365 916**

Statement of Changes in Equity

(All amounts in thousand Uganda Shillings unless otherwise stated)

	Note	Share capital	Other reserves	Retained earnings	Total
Balance at 1 January 2005 as previously stated					
At start of year		4 000 994		2 582 121	6 583 115
Effects of write off of past service costs				(200 676)	(200 676)
Tax effect of write off of past service costs				60 203	60 203
As restated		**4 000 994**		**2 441 648**	**6 442 642**

Year ended 31 December 2005				
At start of year	4 000 994		2 441 648	6 442 642
Profit for the year			1 320 044	1 320 044
Transfer to statutory reserve		20 906	(20 906)	-
At end of year	**4 000 994**	**20 906**	**3 740 786**	**7 762 686**

Balance at 1 January 2006 as previously stated	4 000 994	20 906	3 958 243	7 980 143
Effects of write off of past service costs			(310 653)	(310 653)
Tax effect of write off of past service costs			93 196	93 196
As restated	**4 000 994**	**20 906**	**3 740 786**	**7 762 686**

At start of year	4 000 994	20 906	3 740 786	7 762 686
Profit for the year			1 836 268	1 836 268
Transfer to statutory reserve		360 233	(360 233)	-
At 31 December 2006	**4 000 994**	**381 139**	**5 216 821**	**9 598 954**

Income statement

(All amounts in thousand Uganda Shillings unless otherwise stated)

	Year ended 31 December	
	2006	2005
Interest and similar income	7 670 109	6 100 409
Interest expense and similar charges	(1 998 453)	(1 358 517)
Net interest income	**5 671 656**	**4 741 892**

Fee and commission income	3 292 317	3 050 197
Fee and commission expense	(80 641)	(73 099)
Net fee and commission income	**3 211 676**	**2 977 098**

Net trading income	714 573	671 368
Other operating income	432 051	347 247
Operating income	**10 029 956**	**8 737 605**

Impairment losses on loans and advances	(548 028)	(588 193)
Operating expenses	(7 261 762)	(6 491 900)
Profit before income tax	**2 220 166**	**1 657 512**

Income tax expense	(383 898)	(337 468)
Net profit for the year	1 836 268	1 320 044

Earnings per share (Shs per share)

- Basic	459	330
- Diluted	459	330

Notes to financials statements

1. General information

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

Plot 45 Jinja Road
P O Box 2750 Kampala
Uganda

2. Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Uganda Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of certain financial assets.

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

Adoption of new and revised standards and interpretations effective 1 January 2006

On 1 January 2006 several new and revised standards and interpretations became effective for the first time and have been adopted by the Bank where relevant to its operations. The adoption of these new and revised standards had no material effect on the Bank's accounting policies or disclosures.

Standards and interpretations issued but not yet effective

The Bank has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- IFRS 8, Operating Segments (effective 1 January 2008);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9, Reassessment of embedded derivative (effective 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006);
- IFRIC 11, IFRS 2 - Group Treasury Share Transactions (effective 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective 1 January 2009).

The application of these new interpretations will not have a material impact on the Bank's financial statements in the period of initial application.

(b) Interest income and expense

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

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

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

(c) Fees and commission income

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

(d) Translation of foreign currencies

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

(e) Financial assets

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

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

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

(ii) Loans, advances and receivables

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

(iii) Held-to maturity

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

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

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

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

(f) Impairment of financial assets

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal repayments;

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

- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

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

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

  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

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

If there is objective evidence that an impairment loss on loans or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

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

(ii) Assets carried at fair value

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

(g) Property and equipment

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

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

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

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

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

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

(h) Intangible assets

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

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

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

(i) Income tax

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

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

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

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

(j) Accounting for leases

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

(i) With the Bank as lessee

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

(ii) With the Bank as lessor

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

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

(k) Employee benefits

(i) Retirement benefit obligations

The Bank operates a defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity.

The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The assets of both schemes are held in separate trustee administered funds, which are funded by contributions from both the Bank and employees.

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

(ii) Other entitlements

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

(l) Derivative financial instruments

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

(m) Borrowings

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

(n) Offsetting

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

(o) Sale and repurchase agreements

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

(p) Dividends payable

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

(q) Fiduciary activities

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

(r) Acceptances and letters of credit

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

(s) Comparatives

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

3. Financial risk management

(a) Strategy in using financial instruments

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank also trades in financial instruments where it takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in equities and bonds and in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

(b) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

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

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

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

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

(c) Concentrations of risk

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

At 31 December 2006	Loans and advances %	Credit commitments %	Customer deposits %
Agricultural	4.9	3.7	1.9
Manufacturing	7.1	1.2	2.8
Trade and Commerce	1.6	8.8	3.4
Financial Services	11.7	0.3	13.3
Transport and Utilities	1.0	0.5	1.3
Building and Construction	4.3	18.2	3.9
Individuals	28.7	5.0	28.3
Other	40.7	62.3	45.1
	100.0	**100.0**	**100.0**

At 31 December 2005			
Agricultural	8.4	6.3	0.9
Manufacturing	15.6	2.4	2.8
Trade and Commerce	2.2	4.8	3.9
Financial Services	36.7	4.0	14.8
Transport and Utilities	1.3	0.2	2.7
Building and Construction	6.5	34.0	8.7
Individuals	19.5	1.3	25.1
Other	9.8	47.0	41.1
	100.0	**100.0**	**100.0**

(d) Currency risk

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

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

At 31 December 2006	USD	GBP	EUR	OTHER	TOTAL
Assets					
Cash and balances with central bank	455,351	209,194	103,723	18,357	786,625
Amounts due from banks	8,984,898	23,497	6,454,569	154,060	15,617,024
Loans and advances to customers	7,561,768	-	77,265	-	7,639,033
Derivative financial instruments	-	-	900,000	-	900,000
Other assets	178,376	11,211	66,576	-	256,163
Total assets	17,180,393	243,902	7,602,133	172,417	25,198,845
Liabilities					
Amounts due to banks	2,008,228	-	-	-	2,008,228
Amounts due to customers	10,670,205	201,527	7,581,450	109,501	18,562,683
Derivative financial instruments	2,827,222	-	-	-	2,827,222
Other liabilities	1,585,644	84,136	99,739	-	1,769,519
Provisions	5,745	-	-	-	5,745
Total liabilities	17,097,044	285,663	7,681,189	109,501	25,173,397
Net on-balance sheet position	83,349	(41,761)	(79,056)	62,916	25,448
Net off-balance sheet position	2,779,285	-	4,062,903	365,250	7,207,438
Overall net position	**2,862,634**	**(41,761)**	**3,983,847**	**428,166**	**7,232,886**

At 31 December 2005					
Total assets	10,625,322	1,003,577	6,503,359	292,028	18,424,286
Total liabilities	10,068,766	545,040	6,459,621	283,454	17,356,881
Net on-balance sheet position	556,556	458,537	43,738	8,574	1,067,405
Net off-balance sheet position	4,356,548	-	3,695,135	222,807	8,274,490
Overal net position	**4,913,104**	**458,537**	**3,738,873**	**231,381**	**9,341,895**

The off-balance sheet position represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values.

(e) Interest rate risk

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

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

At 31 December 2006	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Total
ASSETS						
Cash and balances with central bank	-	-	-	-	10,405,487	10,405,487

Government securities		6,548,470	8,341,451	927,134		15,817,055
Amounts due from banks	11,493,710	4,425,000	783,000	435,000	784,950	17,921,660
Loans and advances to customers	4,098,274	5,362,824	9,336,408	12,177,952		30,975,458
Derivative financial instruments	-	-	-	-	71,378	71,378
Investment securities	-	-	1,990	500,000	-	501,990
Intangible assets	-	-	-	-	100,189	100,189
Property, plant and equipment	-	-	-	-	4,695,244	4,695,244
Prepaid operating Lease rentals	-	-	-	-	1,200,480	1,200,480
Current income tax assets	-	-	-	-	574,702	574,702
Other assets	-	-	-	-	2,082,562	2,082,562
Total assets	15,591,984	16,336,294	18,462,849	14,040,086	19,914,992	84,346,205

LIABILITIES & SHAREHOLDERS' FUNDS						
Amounts due to banks	5,562,114	-	962,438	-	871,500	7,396,052
Amounts due to customers	33,132,250	1,158,488	10,758,455	1,613,684	13,890,658	60,553,535
Other borrowed funds	-	-	-	2,961,032		2,961,032
Other liabilities	-	-	-	-	3,020,311	3,020,311
Provisions	-	-	-	-	217,579	217,579
Deferred income tax liabilities	-	-	-	-	138,061	138,061
Retirement benefit obligations	-	-	-	-	460,681	460,681
Shareholders' funds	-	-	-	-	9,598,954	9,598,954
Total liabilities & shareholders'funds	38,694,364	1,158,488	11,720,893	4,574,715	28,127,744	84,346,205
Interest sensitivity gap	(23,102,380)	15,177,806	6,741,956	9,465,371		

At 31 December 2005						
Total assets	18,357,646	11,156,747	18,495,011	9,739,154	12,524,162	70,365,916
Total liabilities & shareholders' funds	19,173,064	4,858,610	12,682,601	3,336,613	30,221,832	70,365,916
Interest sensitivity gap	(815,418)	6,298,137	5,812,410	6,402,541		

The effective interest rates by major currency for monetary financial instruments not carried at fair value through profit or loss at 31 December 2006 and 2005 were in the following ranges:

	2006		2005	
Assets	In Shs	In US$	In Shs	In US$
Government securities	10.5%	-	10.3%	-
Amounts due from banks	9.0%	4.7%	6.7%	4.0%
Loans and advances to customers	19.9%	10.1%	19.4%	9.0%
Investment securities	9.6%	-	9.1%	-
Liabilities				
Amounts due to banks	10.6%	5.9%	10%	0.2%
Amounts due to customers	2.1%	0.6%	3.9%	0.3%
Other borrowed funds	8.4%	-	7.28%	-

(f) Liquidity risk

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

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. All figures are in thousands of Uganda Shillings.

At 31 December 2006	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 Year	Total
ASSETS					
Cash and bank balances with central bank	10,405,487				10,405,487
Government securities		6,548,470	8,341,451	927,134	15,817,055
Amounts due from banks	12,278,660	4,425,000	783,000	435,000	17,921,660
Loans and advances to customers	4,098,274	5,362,824	9,336,408	12,177,952	30,975,458
Derivative financial instruments	58,178	13,200	-	-	71,378
Investment securities	-	-	1,990	500,000	501,990
Intangible assets	-	-	-	100,189	100,189
Property, plant and equipment	-	-	-	4,695,244	4,695,244
Prepaid operating lease rentals	-	-		1,200,480	1,200,480
Current income tax assets	-	-	574,702	-	574,702
Other assets	-	-	2,082,562	-	2,082,562
Total assets	26,840,599	16,349,494	21,120,113	20,035,999	84,346,205

LIABILITIES & EQUITY	Up to 1 month	1-3 months	3-12 months	Over 1 Year	Total
Amounts due to banks	6,433,614	-	962,438	-	7,396,052
Amounts due to customers	47,022,908	1,158,488	10,758,455	1,613,684	60,553,535
Other borrowed funds		-	-	2,961,032	2,961,032
Other liabilities		-	3,020,311	-	3,020,311
Provisions		-	217,579	-	217,579

Deferred income tax liabilities		-	138,061	-	138,061
Retirement benefit obligations		-	-	460,681	460,681
Shareholders' funds		-	-	9,598,954	9,598,954
Total liabilities and shareholders' funds	**53,456,522**	**1,158,488**	**15,096,844**	**14,634,351**	**84,346,205**
Net liquidity gap	**(26,615,923)**	**15,191,006**	**6,023,269**	**5,401,648**	**-**

At 31 December 2005					
Total assets	26,739,319	11,306,604	19,139,351	13,180,642	70,365,916
Total liabilities and equity	35,149,086	8,080,745	15,615,535	11,520,550	70,365,916
Net liquidity gap	(8,409,767)	3,225,859	3,523,816	1,660,092	-

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

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

(g) Fair values of financial assets and liabilities

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

4. Critical accounting estimates and judgements in applying accounting policies

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

(a) Impairment losses on loans and advances

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

(b) Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity investments is tainted, the fair value would increase by Shs 8,174 million, with a corresponding entry in the fair value reserve in shareholders' equity.

5. Interest income

	2006 Shs'000	2005 Shs'000
Loans and advances	5,058,920	3,579,012
Government securities	1,815,550	2,127,742

Cash and short term funds	754,397	393,655
Investment securities	41,242	-
	7,670,109	6,100,409

6. Interest expense

Customer deposits	1,658,660	1,237,684
Deposits by banks	105,344	11,024
Borrowed funds	230,974	109,809
Other	3,475	-
	1,998,453	1,358,517

7. Fees and commission income

	2006 Shs'000	2005 Shs'000
Credit related fees and commissions	468,831	415,614
Trade finance fees	799,865	819,482
Retail portfolio and other management fees	2,023,621	1,815,101
	3,292,317	3,050,197

8. Fees and commission expense

Credit related fees and commissions	8,571	-
Trade finance fees	58,284	43,771
Retail portfolio and other management fees	13,786	29,328
	80,641	73,099

9. Net trading income

Foreign exchange transaction gains less losses	680,093	601,615
Foreign exchange translation gains less losses	34,480	69,753
	714,573	671,368

10. Operating expenses

The following items are included within operating expenses:

	2006 Shs'000	Restated 2005 Shs'000
Employee benefits expense (note 11)	4,041,698	3,466,968
Depreciation on property, plant and equipment (note 20)	512,130	627,405
Gain on disposal of property, plant and equipment	1,925	2,252
Software costs (note 21)	50,409	58,395
Amortisation of prepaid lease rentals	24,999	380
Auditors' remuneration	39,897	35,650

11. Employee benefits expense

The following items are included within employee benefits expense:

Retirement benefit costs:		
- defined contribution scheme	159,628	-
- defined benefit scheme (note 31)	-	159,977
- National Social Security Fund	198,720	155,583
- Salaries and wages	3,683,350	3,151,408

12. Income tax expense

	2006 Shs'000	Restated 2005 Shs'000
Current income tax	232,260	461,682
Deferred tax (note 24)	151,638	(124,214)
	383,898	337,468

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

Profit before income tax	2,220,166	1,657,512
Tax calculated at the statutory income tax rate of 30% (2005 : 30%)	666,050	497,254
Tax effect of :		
- Income not subject to tax	(99,864)	(71,528)
- Expenses not deductible for tax purposes	25,700	21,135
- Prior period tax adjustments	(76,970)	(109,393)
- Other (Change in tax rate on government paper)	(131,018)	-
Income tax expense	383,898	337,468

13. Earnings per share

Basic:

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank .

	2006 Shs'000	Restated 2005 Shs'000
Profit attributable to equity holders of the Bank	1,836,268	1,320,044
Weighted average number of ordinary shares in issue ('000)	4,001	4,001
Basic earnings per share (expressed in Shs per share)	459	330

Diluted:

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Bank had no dilutive potential ordinary shares.

14. Cash and balances with Central Bank of Uganda

	2006 Shs'000	2005 Shs'000
Cash in hand	3,567,322	2,856,290
Balances with Central Bank of Uganda	6,838,165	3,934,677
	10,405,487	6,790,967

15. Government securities held-to-maturity

Treasury bills and bonds:		
Maturing within 90 days of the date of acquisition	2,966,377	630,898
Maturing after 90 days of the date of acquisition	12,850,678	17,976,771
	15,817,055	18,607,669

Treasury bills and bonds are debt securities issued by the Republic of Uganda.

16. Balances due from other banking institutions

	2006 Shs'000	2005 Shs'000
Items in course of collection	5,918,660	5,334,132
Placements	12,003,000	7,742,895
	17,921,660	13,077,027

17. Derivative financial instruments

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

Currency forwards held represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

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

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

At 31 December 2006	Fair values	
Foreign exchange derivatives held for trading	Assets Shs'000	Liabilities Shs'000
Currency forwards	84,600	

Currency swaps	-	(13,222)
Total recognised derivative assets / (liabilities)	84,600	(13,222)

18. Loans and advances to customers

	2006 Shs'000	2005 Shs'000
Overdrafts	11,413,669b	9,555,668
Personal loans	7,289,909	5,418,444
Commercial loans	12,899,828	11,090,175
Gross loans and advances	31,603,400	26,064,287
Less: Provision for impairment of loans and advances	(627,942)	(500,426)
	30,975,458	25,563,861

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

	2006 Shs'000	2005 Shs'000
At start of year	500,426	185,475
Provision for loan impairment	548,028	588,193
Amounts recovered during the year	(124,382)	(142,082)
Net charge to profit and loss account	423,646	446,111
Loans written off during the year as uncollectible	(296,130)	(131,160)
At end of year	627,942	500,426

All loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2006 was Shs 1,654,505,000 (2005: Shs 962,135,000).

19. Investment securities

Investment securities relate to a held-to-maturity bond issued by the East African Development Bank on 19 December 2005. It is a floating rate note due on 19 December 2012. The bond has an interest rate equivalent to the 182-day Bank of Uganda Treasury bill rate plus a margin of 1% per annum. It is listed on the Uganda Securities Exchange.

20. Property and equipment

	Buildings & freehold1 land Shs'000	Motor vehicles Shs'000	Fixtures, fittings and equipment Shs'000	Work in progress Shs'000	Total Shs'000
At 1 January 2005					
Cost or valuation	130,000	197,951	3,458,036	-	3,785,987
Accumulated depreciation	(12,374)	(67,938)	(2,005,606)	-	(2,085,918)
Net book amount	117,626	130,013	1,452,430	-	1,700,069
Year ended 31 December 2005					
Opening net book amount	117,626	130,013	1,452,430	-	1,700,069
Additions	1,801,375	27,500	471,735	46,284	2,346,894
Disposals	-	-	(18)	-	(18)
Depreciation charge	(24,202)	(47,404)	(555,799)	-	(627,405)
Closing net book amount	1,894,799	110,109	1,368,348	46,284	3,419,540
At 31 December 2005					
Cost or valuation	1,931,375	225,451	3,929,771	46,284	6,132,881
Accumulated depreciation	(36,576)	(115,342)	(2,561,423)	-	(2,713,341)

Net book amount	1,894,799	110,109	1,368,348	46,284	3,419,540
Year ended 31 December 2006					
Opening net book amount	1,894,799	110,109	1,368,348	46,284	3,419,540
Additions		30,000	374,013	2,620,309	3,024,322
Transfers (Note 22)	(1,218,629)	-	-	-	(1,218,629)
Disposals	-	-	(10,390)	-	(10,390)
Write-offs	-	-	(7,469)	-	(7,469)
Depreciation charge	(17,596)	(55,363)	(439,171)	-	(512,130)
Closing net book amount	658,574	84,746	1,285,331	2,666,593	4,695,244
At 31 December 2006					
Cost or valuation	712,746	255,451	4,303,784	2,666,593	7,938,574
Accumulated depreciation	(54,172)	(170,705)	(3,018,453)	-	(3,243,330)
Net book amount	658,574	84,746	1,285,331	2,666,593	4,695,244

21. Intangible assets

Computer software licenses	2006 Shs'000	2005 Shs'000
Cost at start of year	732,351	688,402
Additions	89,216	43,949
At end of year	821,567	732,351
Accumulated amortisation brought forward	670,969	612,574
Amortisation charge for the year	50,409	58,395
Accumulated amortisation at end of year	721,378	670,969

Carrying amount as at 31 December	100,189	61,382

22. Prepaid land lease rentals

Cost at beginning of the year	11,250	11,250
Transfer from property, plant and equipment	1,230,938	-
At end of year	1,242,188	11,250
Accumulated amortisation brought forward	4,329	4,021
Amortisation charge for the year	24,999	380
Transfers	12,309	-
	1,200,551	6,849

Leasehold land comprises properties on Plot 1 Main Street, Jinja and Plot 45 Jinja Road, Kampala and is amortised over the remaining lease period of 18 and 51 years respectively.

23. Current income tax assets

	2006 Shs'000	Restated 2005 Shs'000
At start of year	373,505	261,616
Income statement charge (Note 12)	(232,260)	(401,479)
Payments during the year	433,457	513,368
At end of the year	574,702	373,505

24. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2005: 30%). During 2006, a final withholding tax of 15% was introduced on gross interest received from purchase of Government securities. The movement on the deferred income tax account is as follows:

	2006 Shs'000	2005 Shs'000
At start of year	13,577	(110,637)
Profit and loss account (charge)/credit (note 12)	(151,6388)	124,214
At end of the year	(138,061	13,577

The deferred income tax asset/(liability) and deferred income tax charge/(credit) in the profit and loss account are attributable to the following items:

	1 January 2006 Shs'000	Charged/ (credited) to profit and loss Shs'000	31 December 2006 Shs'000
Deferred income tax assets			
Provisions	74,423	(9,149)	65,274
Retirement benefit obligations	143,473	(143,473)	-
	217,896	(152,622)	65,274
Deferred income tax liabilities			
Accelerated tax depreciation	183,393	9,598	192,991
Unrealised translation differences	20,926	(10,582)	10,344
	204,319	(984)	203,335
Net deferred income tax asset / (liabilities)	13,577	(151,638)	(138,061)

25. Other assets

	2006 Shs'000	2005 Shs'000
Accounts receivable and prepayments	589,759	607,398
Accrued income	441,288	288,797
Other	1,051,515	1,053,633
	2,082,562	1,949,828

26. Amounts due to banks

	2006 Shs'000	2005 Shs'000
Items in course of collection	2,063,614	405,776
Deposits from other banks	5,332,438	1,036,000
	7,396,052	1,441,776

27. Customer deposits

Current and demand deposits	26,705,601	28,815,598
Savings accounts	1,681,406	9,086,785
Fixed deposit accounts	16,483,999	13,879,318
Margin deposits	5,682,529	5,142,500
	60,553,535	56,924,201

Margin deposits are customer balances held as collateral for irrevocable credit commitments.

28. Other borrowed funds

	2006 Shs'000	2005 Shs'000
EIB - Uganda APEX Private Sector Loan Scheme	2,433,638	1,509,257
EIB - Uganda Microfinance Scheme	527,394	-
	2,961,032	1,509,257

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

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

29. Other liabilities

	2006 Shs'000	2005 Shs'000
Creditors	893,237	1,192,994
Accruals	803,942	443,011
Other	1,323,132	131,708
	3,020,311	1,767,713

30. Provisions

	2006 Shs'000	2005 Shs'000

At start of year	228,380	124,336
Additional provisions charged	236,953	279,598
Utilisation during the year	(247,754)	(175,554)
	217,579	228,380

The provisions relate to estimates that have been made in respect of costs arising from contractual commitments

31. Retirement benefit obligations

The Bank had a final salary defined benefit plan which was unfunded and was valued using the projected unit credit method. This scheme was converted into a defined contribution plan in 2006. Prior to 2006, the full defined benefit liability had not been recorded in the financial statements. A prior year adjustment of Shs 310,653,000 and related tax credits were recorded in 2006 to reflect the cost.

The amounts recognised in the balance sheet are determined as follows:

	2006 Shs'000	Restated 2005 Shs'000
As previously recorded Prior year adjustment As restated		
Defined contribution plan - Obligations payable	460,681	-
Defined benefit plan - Present value of funded obligations	-	731,903
As restated	460,681	731,903

The amounts recognised in the profit and loss account for the year are as follows:

	2006 Shs'000	Restated 2005 Shs'000

Current service cost	-	522,222
Interest cost	-	45,911
Net actuarial gains recognised in the year	-	408,156
Past service costs	-	-
Net charge for the year included in staff costs	-	159,9770
Contributions paid	(271,222)	(106,9922)
Movement in the liability recognised in the balance sheet	(271,222)	(52,985)

The effect of the prior year adjustment is tabulated below. Opening retained earnings for 2005 have been reduced by Shs 140,473,000 which is the amount of adjustment relating to periods prior to 2005.

Effect on 2005	Shs'0000
Increase in pension costs	109,9770
Decrease in tax expense	(32,9932)
	(76,984)
Effect on periods prior to 2005	
Decrease in profit (Shs 200,676,000 less tax of Shs 60,203,000)	(140,473)
Decrease in assets and retained earnings at 31 December 2005	(217,457)

32. Share capital

	Number of issued shares(thousands)	Ordinary shares Shs'000
Balance at 1 January 2006 and 31 December 2006	4,001	4,000,994

The total authorised number of ordinary shares is 5 million with a par value of Shs 1,000 per share. All issued shares are fully paid.

33. Regulatory reserves

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

	2006 Shs'000	2005 Shs'000
At start of year	20,906	-
Transfer from retained earnings	360,233	20,906
At end of year	381,139	20,906

34. Off balance sheet financial instruments, contingent liabilities and commitments

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

	2006 Shs'000	2005 Shs'000
Acceptances and letters of credit	5,111,477	5,098,042
Guarantee and performance bonds	4,738,382	6,289,971
	9,849,859	11,388,013

Nature of contingent liabilities

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

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

Other commitments	2006 Shs'000	2005 Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	4,036,095	3,004,414

Nature of commitments

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

Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2006. No provision has been made as professional advice indicates that it is unlikely that any additional significant loss will crystallise.

35. Analysis of cash and cash equivalents as shown in the cash flow statement

	2006 Shs'000	2005 Shs'000
Cash and balances with Central Bank of Uganda (note 14)	10,405,487	6,790,967
Less : cash reserve requirement (see below)	(6,915,839)	(2,450,288)
Government securities (Note 15)	2,966,377	630,898
Placements with other banks (Note 16)	17,921,660	13,077,027
	24,377,685	18,048,604

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

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

36. Related party transactions

The Bank's shareholding which was in the ratio 78:22 in favour of Banque Belgolaise and the Netherlands Development Finance Company (FMO) respectively was changed on 3 October 2006 as follows:

Shareholder	Holding	Country of incorporation
BANK OF AFRICA - KENYA	46%	Kenya
FMO	22%	Netherlands
Aureos East Africa Fund LLC	22%	Mauritius
Central Holdings Uganda Ltd.	10%	Uganda

Consequently, the Bank's change of name from Allied Bank International Uganda Limited to BANK OF AFRICA - UGANDA Ltd. was sanctioned by the Registrar of Companies on 22 December 2006.

The ultimate parent of the Bank of Africa Group is Africa Financial Holding SA, incorporated in Luxembourg. There are other companies which are related to the Bank through common shareholdings or common directorships.

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

	2006 Shs'000	2005 Shs'000
Amounts due from group companies	3,084,241	9,636,239

Interest income earned on the above	32,412	161,815
Amounts due to group companies	1,475,813	668,454
Interest expense incurred on the above	-	11,024

Advances to customers at 31 December 2006 include loans to directors, loans to companies controlled by directors or their families, and loans to employees as follows:

Loans to directors	2006 Shs'000	2005 Shs'000
At start of year	147,150	-
Advanced during the year	361,162	207,440
Repaid during the year	(140,448)	(60,290)
At end of year	367,864	147,150

At 31 December 2006 advances to companies controlled by directors or their families amounted to Shs Nil (2005: Nil).

At 31 December 2006 advances to employees amounted to Shs 573,535,000 (2005: Shs 651,817,000).

All the above loans were given on commercial terms and at market rates.

	2006 Shs'000	2005 Shs'000
Interest income earned	47,900	57,665

No provisions have been recognised in respect of loans given to related parties (2005: Nil)

Deposits by directors		
At start of year	8,562	7,125

Received during the year	-	1,437
Repaid during the year	(4,008)	-
At end of year	4,553	8,562
Interest expense incurred	-	-

Key management compensation		
Salaries and other short-term employment benefits	860,800	847,129
Retirement benefits	81,661	45,910
	942,461	893,039

Directors' remuneration		
Fees for services as a director	21,291	21,425
Other emoluments (included in key management compensation above)	505,322	491,777
	526,613	513,202

37. Post balance sheet event

On 19 January 2007, Bank of Uganda approved the change of name of the Bank from Allied Bank International Uganda Limited to BANK OF AFRICA - UGANDA Ltd. and the alteration of its Memorandum and Articles of Association, following the sanctioning of the change of name by the Registrar of Companies on 22 December 2006. Accordingly, pursuant to section 12 of the Financial Institutions Act, 2004, a new licence with the new name was granted. This event had no material financial implication to the financial statements.