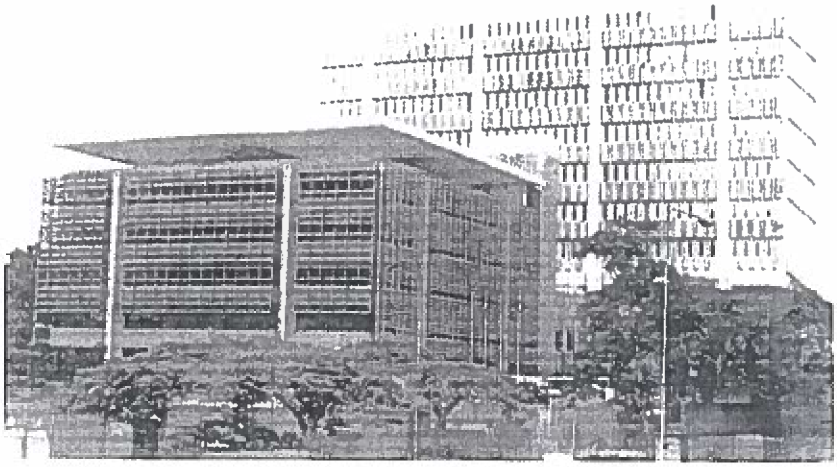
Bank of Uganda

Deposit Protection Fund

Reports & Audited Financial Statements

For the Year Ended 31 December 2008



1 BOARD OF DIRECTORS AND OTHER INFORMATION

1.1 BOARD OF DIRECTORS

Name	Position
Prof. Emmanuel Tumusiime-Mutebile	Governor (Re-appointed effective 12th January 2006).
Mr. David G Opiokello	Ag. Deputy Governor (Appointed 1st May 2006)
Prof. Matthew Okai PhD, DSc.	Deceased on 9th June 2008.
Mr. C. Manyindo Kassami	Member of the Board (Re-appointed effective 5th June 2007).
Prof. J. Waswa Balunywa	Member of the Board (Re-appointed effective 5th June 2007).
Mrs. Benigna Mukiibi	Member of the Board (Appointed effective 5th June 2007).
Mr. Manzi Tumubweinee	Member of the Board (Appointed effective 5th June 2007).

1.2 INVESTMENTS MANAGERS

Africa Alliance Uganda Limited (AAU)
6th Floor Workers House
Pilkington Road
P O Box 70828
Kampala
Uganda

1.3 CUSTODIANS

Bank of Uganda
Plot 37/43, Kampala Road
P.O. Box 7120
Kampala, Uganda

1.4 AUDITORS

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

2 REPORT OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2008

The Directors present their report together with the audited financial statements of the fund for the year ended 31 December 2008.

2.1 BACKGROUND OF THE FUND

The Deposit Protection Fund was established under the Financial Institutions Statute 1993 Section 34(1), and replaced by Section 108(1) Financial Institutions Act 2004.The objective of the Fund is to make payments to depositors of banks closed under an administration order by the Central Bank in accordance with Section 110(1) of the Act.

2.2 CONTRIBUTIONS AND FUNDING

Under section 109 (1) of the Act, every financial institution contributes to the Fund and pays into the Fund such annual amount as the Central Bank may determine. Currently, Financial Institutions contribute not less than 0.2% of their average weighted deposit liabilities of the financial institutions in their previous financial year. The Central bank may from time to time issue statutory instruments varying the percentage and advising the basis of weighting.

During the period ended 31 December 2008, the Fund received contributions amounting to Shs 6,659 million (2007: 5,527 million) from sixteen (2007:15) Commercial Banks and Shs 123 million (2007: 185 million) from four (2007:five) Non-Banking Financial Institutions. Non-Banking Financial Institutions started contributing to the Fund with effect from 1 January 2000, in compliance with section 35 of the Financial Institutions Statute 1993. The Statute was repealed and replaced by the Financial Institutions Act 2004. Proceeds from Liquidation totaling shs.25,064 million were received and distributed.

The net assets increased by Shs 28,052 million for the period 1 January 2008 to 31 December 2008 (2007:11,833 million).

2.3 INVESTMENTS

Section 108(6) of the Act stipulates that the money constituting the Fund be invested in such manner as the Central Bank deems appropriate. The Bank has continued to invest the Fund monies in risk free Government Treasury Bills and Bonds. Effective October 2005, African Alliance Uganda Limited started managing the Fund and by the year ended 31st December 2008, Shs 66,026 million was invested in Treasury Bonds and Treasury Bills (2007:50,280 million) and Shs 22,068 million was held in cash (2007:56 million), pending settlement of claims by Government totaling shs.19,750 million.

2.4 PAYMENTS TO DEPOSITORS

The Fund's liability to eligible depositors arises when a Financial Institution becomes insolvent. During the period ended 31st December 2008, the Fund made no payments to depositors because no institution could be described as such. The amount payable to depositors is the protected deposit. This is the aggregate credit balance of any accounts maintained by a customer at a financial institution less any liability of the customer to the Financial Institution. The protected deposit is determined by the Minister of Finance, Planning and Economic Development, from time to time by order published in the Gazette, and is currently Shs 3 million.

2.5 DUES FROM THE LIQUIDATOR

Under section 110 (8) of the Act, the Fund has a claim from the Financial Institution or the liquidator; whichever is the case, of an amount equal to the payment made by the Fund on account of its subrogation to the claims of any customer or depositor. During the year, shs.25,064 million was received from the Liquidator. The amounts received with respect to each financial institution is shown in note 10(d) to the financial statements. Since Government paid all depositors of the closed institutions, the Deposit Protection Fund will only recover its contribution of Shs. 3,299 million and pay the outstanding balance of shs.19,750 million due to Government.

2.6 AUDITORS

KPMG, were appointed auditors of the Fund for the financial year ending 31st December 2008 and being eligible, have expressed their willingness to continue in office.

2.7 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved on ...29 April...2009.

....

GOVERNOR

3 STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors of the fund are responsible for the preparation and fair presentation of the financial statements, comprising the statement of changes in net assets as at 31st December 2008, and the statement of net assets for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards.

The Directors of the fund have the responsibility of designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. They are also responsible for safe guarding the assets of the funds.

The Directors accept responsibility for the financial statements set out on pages 9 to 26, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Financial Institution Act 2004. The Directors are of the opinion that the financial statements give a true and fair view of the financial transactions of the fund and of the disposition of its assets and liabilities for the year ended 31st December 2008. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors certify that to the best of their knowledge and belief the information furnished to the auditors for the purposes of the audit was correct and is an accurate representation of the fund's financial transactions in every respect.

The financial statements were approved by management on behalf of the Board of Directors on 29 April 2009 and signed by:

....Governor, Bank of Uganda

....Ag. Deputy Governor, Bank of Uganda

....Executive Director Finance, Bank of Uganda

4 REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE DEPOSIT PROTECTION FUND

4.1 REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the Bank of Uganda Deposit Protection Fund, which comprise: statement of changes in net assets as at 31 December 2008, and the statement of net assets for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 9 to 26.

4.2 DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Financial Institution Act 2004. This responsibility includes: designing, implementing and maintaining internal controls 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.

4.3 AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

4.4 OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Deposit Protection Fund as at 31st December 2008 and of the statement of changes in net assets for the year then ended and in accordance with International Financial Reporting Standards and the Financial Institutions Act 2004.

KPMG

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KPMG

Certified Public Accountants
P O Box 3509
Kampala
Uganda

Date: ......29....../......April....../2009

5 STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Receipts			
Contributions received			
Commercial Banks	2	6,659,195	5,527,372
Non- Banking Financial Institutions	2	123,269	185,082
Other receipts from liquidation	10 (d)	9,541,544	-
		16,324,008	5,712,454
Other Income			
Interest on Government Treasury bills & bonds	3	7,009,264	5,418,860
Income from secondary markets trading	4	149,497	408,339
Fair value loss	9	(238,967)	-
		6,919,794	5,827,199
Total receipts		23,243,802	11,539,653
Expenses			
Write back of provision	10 (c)	(6,010,478)	(1,799,801)
Audit fees	5	12,354	10,578
Management fees	6	115,969	98,812
Taxation	7	1,073,814	1,346,786
Total payments		(4,808,341)	(343,625)
Increase in net assets	8	28,052,143	11,883,278

The notes set out on pages 11 to 26 form an integral part of the financial statements.

6 STATEMENT OF NET ASSETS AS AT 31 DECEMBER 2008

	Note	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Assets			
Investment in Government securities	9	66,002,723	50,280,808
Current assets			
Debtors	10 (a)	-	9,512,252
Bank and cash balances	10 (e)	22,068,520	56,030
		22,068,520	9,568,282
Total Assets		88,071,243	59,849,090
Current liabilities			
Creditors	11	19,760,392	19,750,479
Un claimed deposits	12	198,882	198,882
Expenses payable	13	1,522,113	1,362,015
		21,481,387	21,311,376
Net Assets of the Fund		66,589,856	38,537,714
Represented by:			
Fund Balance	8	66,589,856	38,537,714

The financial statements were approved by management on behalf of the Board of Directors on 29 April 2009

And signed by:

....Governor, Bank of Uganda

.... Ag. Deputy Governor, Bank of Uganda

.... Executive Director Finance, Bank of Uganda

The notes set out on pages 11 to 26 form an integral part of the financial statements.

7 ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below;

a. Reporting entity

The Bank of Uganda Deposit Protection Fund was established under the Financial Institutions Statute 1993 Section 34(1), replaced by section 108(1) of the Financial Institutions Act 2004. It was established with the objective of making payments to depositors of banks closed under administration order by the Central Bank in accordance with Section 110(1) of the Act.

b. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with and comply with the International Reporting Standards.

b) Basis of measurement

The financial statements have been prepared under the historical cost basis modified by the carrying of certain assets at their recoverable amounts and held for trading assets at their fair value.

c) Functional and presentation currency

The financial statements are presented in Uganda Shillings, which is the bank's functional currency.

d) Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making the judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

ACCOUNTING POLICIES (CONTINUED)

c. PRINCIPAL ACCOUNTING POLICIES

i REVENUE RECOGNITION

Income comprises contributions levied to contributing Institutions and is recognised in the period when they are recoverable. Such contributions are assessed at a rate of 0.2% of the average weighted deposit liabilities of the financial institutions in its previous financial year.

Interest income is primarily earned on treasury bills and bonds and is recognized in the period in which it is earned taking into account the effective yield on the asset.

Interest income include the amortization of any discount at premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

ii PROVISION FOR PAYMENTS TO DEPOSITORS

Provisions for payments to protected depositors are recognized in the financial statements in the period the contributory Institution is placed under liquidation. Any payments that exceed the provisions made are taken into account in determining operating results for the year. Provisions that relate to unclaimed protected deposits are written back to income on expiry of the statutory period.

iii FINANCIAL INSTRUMENTS

The funds financial instruments are classified into the following categories;

- Government Securities are classified as held for trading and are accordingly carried at fair value.
- Receivables which comprise of debtors and prepayments are classified as originated loans and are accordingly carried at amortized costs.
- Creditors and accruals are carried at amortized cost.

A financial asset is impaired if its carrying value is greater than its estimated recoverable amount. The amounts of impairment losses are taken into account in determining operating surplus for the year.

ACCOUNTING POLICIES (CONTINUED)

i) Recognition

All other financial assets and liabilities are initially recognised on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

ii) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability. The fund derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The fund writes off certain assets when they are determined to be uncollectible.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Fund has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Fund's trading activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

v) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available the bank measures the value of an instrument using quoted prices in an active market for that instrument.

If a market for a financial instrument is not active, the bank establishes fair value using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable willing parties, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on estimates specific to the fund. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

iv TAXATION

The fund is exempt from corporation tax. However, withholding tax of 15% is charged on interest income earned on treasury bills and bonds.

v PAYMENTS TO DEPOSITORS

Payments to depositors are initially recognized as receivables from the liquidators of closed Commercial banks/ Non-Banking financial institutions. Subsequently, any short fall in receivables not made good by the liquidator is written off in the statement of changes in net assets.

vi CASH AND BANK

Cash and bank includes cash balances held with the central bank.

vii INVESTMENT SECURITIES

(i) Fair value through the income statement

The Fund carries some investment securities at fair value, with fair value changes recognised immediately in the income statement.

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through the income statement, or available-for-sale.

(ii)Held to maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Fund has the positive intent and ability to hold to maturity, and which are not designated at fair value through the income statement or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale.

ACCOUNTING POLICIES (CONTINUED)

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in the income statement using the effective interest method.

viii NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations

are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

IFRS 8-Operating segments

This interpretation is required to be applied for annual periods beginning on or after 1 January 2009 but is not expected to have a significant impact on the activities of the fund.

IAS 23-Revised-Borrowing Costs

This interpretation is required to be applied for annual periods beginning on or after 1 January 2009 but is not expected to have a significant impact on the activities of the fund.

IFRIC 13 -Customer Loyalty Programmes

This interpretation is required to be applied for annual periods beginning on or after 1 July 2008 but is not expected to have a significant impact on the activities of the fund.

IAS 1- Presentation of Financial Statements(Revised)

The interpretation is effective for annual periods beginning on or after 1 January 2009 but is not expected to have a significant impact on the activities of the fund.

ix COMPARATIVES

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

2. CONTRIBUTIONS DURING THE YEAR:

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Commercial Banks		
Bank of Africa (formerly Allied Bank Limited)	113,546	100,431
Barclays Bank of Uganda Limited	830,179	578,922
Bank of Baroda (Uganda) Limited	310,578	253,092
Cairo International Bank Limited	40,960	30,790
Centenary Bank Limited	476,304	393,178
Citibank Limited	379,387	323,094
Crane Bank Limited	447,415	310,871
DFCU Bank Limited	260,225	296,791
Kenya Commercial Bank (U) Ltd	5,402	-
Diamond Trust Bank Limited	61,849	58,567
National Bank of Commerce	13,867	11,225
Nile Bank Limited	-	184,602
Orient Bank Limited	235,205	178,695
Stanbic Bank Limited	1,950,564	1,646,449
Standard Chartered Bank Limited	1,316,725	1,086,807
Tropical African Bank Limited	102,560	73,858
Housing Finance Bank (U) Ltd	114,429	-
	6,659,195	5,527,372
Non-Banking Financial Institutions		
Merchantile Bank Limited	9,653	8,204
Capital Finance Corporation Limited	8,396	7,312
Housing Finance Company of Uganda Limited	-	99,968
Commercial Micro-Finance Limited	34,092	20,824
PostBank Uganda Limited	71,128	48,775
	123,269	185,082
	6,782,464	5,712,454

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. INTEREST ON GOVERNMENT TREASURY BILLS AND BONDS

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Treasury bills	3,013,918	2,052,729
Treasury bonds	3,995,346	3,368,141
	7,009,264	5,420,870
Adjustment	-	(2,010)
Net interest from securities	7,009,264	5,418,860

The fair value movement represents an unrealised loss resulting from a decline in market value of the underlying Treasury bonds due to interest rate changes during the year.

Adjustment relates to residual cost on treasury bills traded-in during the years 1995 and 1996.

4. INCOME FROM SECONDARY MARKET TRADING

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Sales/ Redemption value	2,503,174	2,113,000
Book value of securities traded	(2,489,135)	(1,983,730)
Profit on trading	14,039	129,270
Interest accrued on securities	135,458	279,069
Total income from secondary market trading	149,497	408,339

5. AUDIT FEES

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Fees for the Year (inclusive of Value added tax)	12,354	10,578

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. MANAGEMENT FEES

Management fees are 0.20% (twenty basis points) per annum of the market value of the portfolio at the end of each relevant quarter as per 9(1)(2)(i) of the investment management agreement between African Alliance Limited ("The Investment manager") and The Bank of Uganda (As Manager of the Deposit Protection Fund).

	31-Dec-08 ('000)	31-Dec-07 ('000)
Fees for the Year (inclusive of withholding tax)	115,969	98,812

7. TAXATION

	Treasury Bills Ushs '000	Treasury Bonds Ushs '000	Other income Ushs '000	2008 Total Ushs '000	2007 Total Ushs '000
Total income	3,149,376	3,995,346	14,039	7,158,761	5,829,209
Taxable income	3,149,376	3,995,346	14,039	7,158,761	5,829,209
				-	
Tax at 15%	472,406	599,302	2,106	1,073,814	1,346,786
Total tax charge	472,406	599,302	2,106	1,073,814	1,346,786
Less withholding tax paid at 15%	(438,986)	(481,012)		(919,998)	(637,383)
Tax Payable for 2008	33,420	118,290	2,106	153,816	709,403
Tax payable as 31 December	106,141	1,190,786	2,106	1,481,121	1,327,305
Tax payable as 1 January	72,721	1,072,496	-	1,327,305	617,902

8. MOVEMENT ON NET ASSETS

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
At 1 January	38,537,713	26,654,434
Increase in net assets	28,052,143	11,883,279
At 31st December	66,589,856	38,537,713

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. INVESTMENTS IN GOVERNMENT SECURITIES

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Treasury bills	26,662,445	25,227,042
Treasury bonds	39,340,278	25,053,766
	66,002,723	50,280,808

The treasury bills and bonds are further analysed as follows:

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Treasury bills (at cost)	25,373,042	24,071,031
Interest accrued	1,289,403	1,156,011
Total	26,662,445	25,227,042
Treasury bonds	36,465,473	22,575,118
Interest accrued	3,113,772	2,478,648
fair value adjustment	(238,967)	-
Total	39,340,278	25,053,766

The Treasury bills/bonds are held for trading and are stated at fair value. The weighted average effective interest rate on Treasury bills was 12.2% (2007: 9.1%) and on treasury bonds was 14.06 % (2007: 13.8%)

The maturity of treasury bills and bonds is as shown below

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Treasury Bills		
Maturity within 91 days	7,989,878	6,943,143
Maturity after 91 days & before 181 days	9,464,581	8,423,415
Maturity after 182 days	9,207,986	9,860,484
	26,662,445	25,227,042
Treasury Bonds		
Maturity within 2 years	27,208,781	23,103,217
Maturity after 2 years and within 3 years	10,908,743	727,795
Maturity after 3 years and within 4 years	760,410	760,410
Maturity after 4 years	462,344	462,344
Total	39,340,278	25,053,766

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. DEBTORS AND BANK BALANCES

a. Net

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
International Credit Bank	1,001,072	1,809,342
Greenland Bank Limited	6,410,107	10,561,096
The Cooperative Bank Limited	-	10,563,471
	7,411,179	22,933,909
Impairment losses (10 b)	(7,411,179)	(13,421,657)
	-	9,512,252

This represents cumulative payments to depositors of the closed banks and is recoverable from liquidation proceeds in accordance with the provisions of Section 109(8) of the Financial Institutions Act 2004 (formerly Section 34(1) of Financial Institution Statute 1993), which is the applicable law.

b. Provision for impairment losses

Financial Year 2008	Debt UShs '000	Provision Percentage	Amount UShs '000
Name of the Bank			
International Credit Bank	1,001,072	100.00%	1,001,072
Greenland Bank Limited	6,410,107	100.00%	6,410,107
	7,411,179		7,411,179

Financial Year 2007	Debt UShs '000	Provision Percentage	Amount UShs '000
Name of the Bank			
International Credit Bank	1,809,342	83.00%	1,501,754
Greenland Bank Limited	10,561,096	85.50%	9,029,737
The Cooperative Bank Limited	10,563,471	27.36%	2,890,166
	22,933,909		13,421,657

The distribution of the liquidation proceeds of the above Commercial banks was completed during the course of the financial year, taking into account the impairment loss.

On the basis of that, part of the impairment losses recognized last financial year have been written-back following the recoveries made.

The liquidator paid a sum of Shs.25.064 billion in respect of debtor balances recorded against International Credit Bank, Greenland Bank and Cooperative Bank. Since Government paid all depositors of those closed institutions, the Deposit Protection Fund will only recover its contribution of Shs. 3,299 million and pay the full balance of shs.19, 750 million to Government.

c. Analysis of changes in Provisions.

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
At 1 January	13,421,657	15,221,458
Write back of Provisions no longer required	(6,010,478)	(1,799,801)
Written off during the year	-	-
At 31 December	7,411,179	13,421,657

The write back of provisions is due to repayments received from the liquidator.

d. Liquidation proceeds

During the year, the liquidation process was concluded. The component of distribution proceeds received by the Bank of Uganda Deposit Protection Fund as advised by the liquidator is as shown below.

Debtor	Amount outstanding 31-Dec-07 (UShs '000)	Amount Recovered in 2008 (UShs '000)	(Under recovery), Over recovery (UShs '000)
International Credit Bank	1,809,342	808,270	(1,001,072)
Greenland Bank	10,561,096	4,150,889	(6,410,207)
The Co-operative Bank	10,563,471	20,105,015	9,541,544
	22,933,909	25,064,174	2,130,265

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

c. Cash and Bank balances

	31-Dec-08 Ushs('000)	31-Dec-07 Ushs('000)
Cash at Bank of Uganda	22,068,520	56,030
Total	**22,068,520**	**56,030**

Included in the cash held at Bank of Uganda is Ushs.19, 750 million payable to Government as noted in note 10 (b)

11. CREDITORS

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Total insured depositors	41,152,210	41,152,210
Claim by Deposit Protection Fund	(3,299,997)	(3,299,997)
Claim by Government of Uganda	37,852,213	37,852,213
Refund to Government	(10,000,000)	(10,000,000)
Bal. From Coop Bank A/C & Other Assets	(8,101,734)	(8,101,734)
Amount payable to Government	19,750,479	19,750,479
Amount payable to Bank of Uganda	9,913	-
	19,760,392	**19,750,479**

12. UN-CLAIMED DEPOSITS

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
At 1st January	198,150	206,357
Un-claimed deposits paid in the year	-	(8,207)
	198,150	198,150
Other related balances	732	732
	198,882	**198,882**

The balance constitutes unclaimed deposits by insured depositors.

13. EXPENSES PAYABLE

	31-Dec-08 UShs '000	31-Dec-07 UShs '000
Audit fees	12,000	9,558
Withholding tax	1,481,121	1,327,305
Management fees	28,992	25,152
	1,522,113	1,362,015

14. REPORTING CURRENCY

The financial statements have been presented in thousands of Uganda Shillings.

15. RISK MANAGEMENT

Introduction and overview

Deposit Protection fund has exposure to the following risks from its use of financial instruments:

- Currency risks
- Interest Rate Risk
- Market risk
- Liquidity risk

This note presents information about Deposit Protection fund's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk and Deposit Protection fund's management of capital.

Risk management framework

Deposit Protection fund's trustees have overall responsibility for the establishment and oversight of Deposit Protection fund's risk management framework. The trustees are responsible for developing and monitoring the risk management policies. The trustees are responsible for identifying and analyzing the risks faced by Deposit Protection fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

a. Currency Risk

The fund operates wholly within Uganda and all its assets and liabilities are reported in local currency. It does not carry out any transactions in foreign currencies hence there is no currency risk.

b. Interest Rate Risk

The excess funds are invested in the government of Uganda Treasury bills and bonds, which are interest risk free. The interest rate risk exposure is managed by the Fund Manager, African Alliance Uganda Limited.

Exposure to Interest rate risk

The table below summarises the exposure to interest rate risks. Included in the table are the Fund's assets and liabilities categorized by maturity dates;

	Up to 3 months	3 to 6 months	3 to 12 months	1 to 5 years	Non-interest bearing	Total 2008	Total 2007
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Assets							
Cash at bank			-	-	22,068,520	22,068,520	56,030
Investments in treasury bills	7,989,878	9,464,581	9,207,986	-		26,662,445	25,227,042
Investments in treasury bonds			-	39,340,278		39,340,278	25,053,766
Debtors	-	-	-			0	9,512,252
Total assets	**7,989,878**	**9,464,581**	**9,207,986**	**39,340,278**	**22,068,520**	**88,071,243**	**59,849,090**
Liabilities							
Creditors			-	-	19,760,392	19,750,479	19,750,479
Unclaimed deposits			-	-	198,882	198,882	198,882
Accrued expenses			-	-	1,522,113	1,522,113	1,362,015
Total liabilities			-	-	**21,481,387**	**21,481,387**	**21,311,376**
Net interest rate Gap	**7,989,878**	**9,464,581**	**9,207,986**	**39,340,278**	**597,133**	**66,589,856**	**38,537,714**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fair value versus carrying amounts

The fair values of financial assets and financial liabilities together with the carrying value shown in the Balance sheet are analysed as below;

	31 December 2008		31 December 2007	
	Fair value	Carrying	Fair value	Carrying
Cash at bank	22,068,520	22,068,520	56,030	56,030
Investments in bills	26,662,445	26,662,445	25,227,042	25,227,042
Investments in Treasury bonds	39,340,278	39,340,278	25,053,766	25,227,042
Debtors	-	-	9,512,252	9,512,252
Creditors	(19,760,392)	(19,760,392)	(19,750,479)	(19,750,479)
Unclaimed deposits	(198,882)	(198,882)	(198,882)	(198,882)
Accrued expenses	(1,522,113)	(1,522,113)	(1,362,015)	(1,362,015)
	66,589,856	**66,589,856**	**38,537,714**	**38,537,714**

c. Liquidity Risk

The fund has a medium exposure to liquidity risk. However, the rating of the liquidity risk will improve to low level when the Fund builds up sufficient resources through investments and premiums.

Management of liquidity risk

Deposit Protection fund has access to funds raised from deposit protection premiums paid by Financial and no-financial institutions annually. Deposit Protection fund continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Deposit protection fund strategy.

Exposure to Liquidity risk

Key measures used by Deposit Protection fund for managing liquidity risk are the asset mix limits.

	Up to 1 month Ushs '000	1 to 3 months Ushs '000	3 to 12 months Ushs '000	1 to 5 years Ushs '000	Total 2008 Ushs '000	Total 2007 Ushs '000
Assets						
Cash at bank	22,068,520	-	-	-	22,068,520	56,030
Investments in treasury bills	-	-	26,662,445	-	26,662,445	25,227,042
Investments in treasury bonds	-	-	-	39,340,278	39,340,278	25,053,766
Debtors	-	-	-			9,512,252
Total assets	**22,068,520**		**26,662,445**	**39,340,278**	**88,071,243**	**59,849,090**
Liabilities						
Creditors	19,760,392	-	-	-	19,760,392	19,760,392
Unclaimed deposits	198,882	-	-	-	198,882	198,882
Accrued expenses	1,522,113	-	-	-	1,522,113	1,362,015
Total liabilities	**21,481,387**	**-**	**-**	**-**	**21,481,387**	**21,311,376**
Liquidity gap As at 31 December 2008	**587,133**	**-**	**26,662,445**	**39,340,278**	**66,589,856**	**38,537,714**

16. RELATED PARTY TRANSACTIONS

The Deposit Protection Fund and Bank of Uganda are related parties performing duties of deposit protection and bank supervision respectively.

No trading is carried on with Bank of Uganda. The following takes place between the Bank and Fund.

1. The members of staff working on the fund are employees of the Central Bank, and it is the Central Bank that fully meets their salaries. The costs of managing the fund are incurred by the Central Bank and therefore not recharged to the fund.
2. The fund is housed within the Central Bank.

17. ESTABLISHMENT

The Deposit Protection Fund was established in Uganda under the Financial Institutions Statute 1993: Section 34(1), later replaced by the Financial Institutions Act 2004: Section 108(1) and is domiciled in Uganda.