



Bank of Uganda

Deposit Protection Fund

Annual Report and Financial Statements

For the Year Ended 31 December 2010





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1 BOARD OF DIRECTORS AND OTHER INFORMATION

1.1 BANK OF UGANDA BOARD OF DIRECTORS

Name	Position
Prof. Emmanuel Tumusiime-Mutebile	Governor
Dr. Louis Kasekende	Deputy Governor
Mr. C. Manyindo Kassami	Member of the Board
Prof. J. Waswa Balunywa	Member of the Board
Mrs. Benigna Mukibi	Member of the Board
Mr. Manzi Tumubweinee	Member of the Board

1.2 INVESTMENTS MANAGERS

African Alliance Uganda Limited (AAU)
1st Floor Workers House
Pilkington Road
P. O. Box 70828
Kampala
Uganda

1.3 CUSTODIAN

Bank of Uganda
Plot 37/45, Kampala Road
P.O. Box 7120
Kampala
Uganda

1.4 AUDITORS

Ernst & Young
Certified Public accountants
Ernst & Young House
18 Clement Hill Road
P. O. Box 7215
Kampala
Uganda



2 REPORT OF MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

The management of the Deposit Protection Fund ('the Fund') presents their report together with the audited financial statements of the Fund for the year ended 31 December 2010.

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) of Financial Institutions Act, 2004 ('the Act'). 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 for the 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 year ended 31 December 2010, the Fund received contributions amounting to UShs 10,353 million (2009: UShs 8,476 million) from twenty one Commercial Banks (2009: 20) and UShs 135 million (2009: UShs 111 million) from four Credit Institutions (2009: 3). Credit Institutions started contributing to the Fund with effect from 1 January 2000, in compliance with section 109 of the Financial Institutions Act, 2004.

The net assets of the Fund increased by UShs 19,634 million from UShs 82,292 million as at 31 December 2009 to UShs 101,925 million as at 31 December 2010.

2.3 INVESTMENTS

Section 108(6) of the Act stipulates that the money constituting the Fund be invested in such a 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 31 December 2010, UShs 100,801 million was invested in Treasury Bonds and Treasury Bills (2009: UShs 76,614 million). An amount of UShs 21,605 million was held at Bank of Uganda (2009: UShs 26,969 million), pending settlement of claims



by Government of Uganda totaling US\$ 19,750 million, which will be paid after the conclusion of the liquidation exercise.

2.4 PAYMENTS TO DEPOSITORS

The Fund's liability to eligible depositors arises when a Financial Institution is classified as insolvent. During the year ended 31 December 2010, the Fund made no payments to depositors since no financial institution was classified 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 US\$ 3 million.

2.5 AUDITORS

Ernst & Young were appointed auditors of the Fund for the financial year ended 31 December 2010 and being eligible, have expressed their willingness to continue in office.

2.6 APPROVAL OF THE FINANCIAL STATEMENTS BY MANAGEMENT

The financial statements were approved on 21 April 2011.

GOVERNOR



3 STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The management of the Fund is responsible for the preparation and fair presentation of the financial statements, comprising the statement of net assets as at 31 December 2010, and the statement of comprehensive income and statement of cash flows 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 (IFRS) and the requirements of the Financial Institutions Act, 2004.

Management is responsible for the internal control of the Fund. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of the Fund's assets. Appropriate accounting policies supported by reasonable and prudent judgments and estimates, are applied on a consistent basis and using the going concern basis. These systems and controls include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Management accepts responsibility for the financial statements set out on pages 8 to 22, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with IFRS and the requirements of the Financial Institutions Act, 2004. Management is of the opinion that the financial statements give a true and fair view of the financial affairs of the Fund and of the disposition of its assets and liabilities for the year ended 31 December 2010. Management further accepts 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.

Management certifies 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 21 April.....2011 and signed by:

.....Governor, Bank of Uganda

.....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 the statement of net assets as at 31 December 2010, and the statement of comprehensive income and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 8 to 22.

4.2 MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Fund management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Ugandan Financial Institutions Act, 2004, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

4.3 AUDITORS' RESPONSIBILITY

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

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4 REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

4.3 AUDITORS' RESPONSIBILITY (CONTINUED)

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 present fairly, in all material respects, the financial position of the Deposit Protection Fund as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Ugandan Financial Institutions Act, 2004.

A handwritten signature in black ink, appearing to be a cursive name.

KAMPALA

21 April 2011

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5 STATEMENT OF COMPREHENSIVE INCOME


YEAR ENDED		Note	31-Dec-2010	31-Dec-2009
			UShs '000	UShs '000
Contributions received:	Commercial Banks	2	10,352,562	8,475,949
	Credit Institutions	2	134,626	111,423
	Risk Adjusted Premium	2	230,411	-
			10,717,599	8,587,372
Income on investments:	Interest on Government Treasury bills & bonds	3	5,670,409	7,484,527
	Income from secondary market trading	4	3,911,383	1,109,745
	Other income	6	-	23,549
			9,581,792	8,617,821
Total income			20,299,391	17,205,193
Expenses	Audit fees	5	13,264	12,831
	Management fees	6	197,532	144,521
	Other expenses		-	57,966
	Taxation	7	455,066	1,288,338
Total expenditure			665,862	1,503,656
Total comprehensive income for the year		13	19,633,529	15,701,537




6 STATEMENT OF NET ASSETS AS AT 31 DECEMBER 2010

		Note	31-Dec-2010 UShs '000	31-Dec-2009 UShs '000
Assets				
	Investments in Government securities	8	100,801,474	76,613,503
	Receivables	6	-	23,549
	Bank and cash balances	9	21,604,772	26,969,161
Total Assets			122,406,246	103,606,213
Current liabilities				
	Creditors	10	19,760,392	19,760,392
	Un claimed deposits	11	198,882	198,882
	Expenses payable	12	64,100	12,500
	Tax payable	7	457,950	1,343,046
Total Liabilities			20,481,324	21,314,820
Net Assets of the Fund			101,924,922	82,291,393
Represented by:				
Fund Balance		13	101,924,922	82,291,393

The financial statements on pages 8 to 22 were approved by management on behalf of the Board of Directors on 21 April 2011 and were signed by:


..... Governor, Bank of Uganda


..... Deputy Governor, Bank of Uganda


..... Executive Director Finance, Bank of Uganda



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

	Note	31-Dec-2010 Ushs'000	31-Dec-2009 Ushs'000
Cash flows from operating activities			
Contributions received		10,487,188	8,587,372
Risk adjusted premium		230,411	-
Decrease in payables		-	(28,492)
Increase in receivables		-	(23,549)
Management fees		(123,147)	(144,521)
Other expenses		-	(57,966)
Taxation		(1,340,161)	(1,426,413)
Audit fees		(12,485)	(12,831)
Net cash generated from operating activities		9,241,806	6,893,600
Cash flows from investing activities			
Investment income received-T Bills & Bonds		91,547,493	7,484,527
Investment income -secondary market		22,463,818	1,109,745
Other income		-	23,549
Increase in investing activities		(128,617,506)	(10,610,780)
Net cash used in investing activities		(14,606,195)	(1,992,959)
Net (decrease)/ increase in cash and cash equivalents		(5,364,389)	4,900,641
Movement in cash and cash equivalents:			
At the start of the year		26,969,161	22,068,520
Net increase in the year		(5,364,389)	4,900,641
At the end of the year	9	21,604,772	26,969,161



8 NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

A. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards and the requirements of the Financial Institutions Act, 2004.

Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain financial assets and liabilities that are initially measured at fair value.

Functional and presentation currency

The financial statements are presented in Uganda Shillings (UShs), which is the Fund's functional currency.

B. SIGNIFICANT ACCOUNTING POLICIES

i) Revenue recognition

Income comprises contributions levied to contributing Financial Institutions and is recognized in the period when it is recoverable. Such contributions are assessed at a rate of 0.2% of the average weighted deposit liabilities of the Financial Institutions for 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 includes the amortization of any premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated using the effective interest rate method.

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 Fund's financial instruments are classified as follows:

- Government securities are classified as held to maturity and are accordingly carried at amortised cost.
- Bank balances and other receivables are classified as held to maturity and are accordingly carried at amortized cost.
- Creditors are carried at amortized cost.

iv) Recognition

Financial assets and liabilities are initially recognized 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.

v) Derecognition

The Fund de-recognizes 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 recognized as a separate asset or liability. The Fund de-recognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

vi) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of net assets 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 realize 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.



vii) Amortised cost measurement

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

viii) 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 Fund 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 Fund 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 and the discounted cash flow analysis. 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.

ix) Taxation

A final tax of 15% is charged on interest income earned on treasury bills and bonds.

x) 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.

xi) Cash and bank

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

xii) Investment securities

a) Held to maturity

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



xii) Investment securities (continued)

a) Held to maturity (continued)

Held-to-maturity investments are carried at amortized 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.

b) 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 recognized in the statement of comprehensive income using the effective interest method.

xiii) Changes in accounting policies

The accounting policies adopted are consistent with those applied in the previous years. The following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010 did not have any impact on the accounting policies, financial position or performance of the Fund:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below:

- IAS 24 Related Party Disclosures (Amendment)
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
- IFRS 9 Financial Instruments: Classification and Measurement
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments Improvements to IFRSs (issued in May 2010)

The Fund expects no impact from the adoption of the amendments on its financial position or performance.



2. CONTRIBUTIONS DURING THE YEAR

	31-Dec-2010	31-Dec-2009
	UShs '000	UShs '000
Commercial Banks		
Bank of Africa	238,559	181,657
Barclays Bank of Uganda Limited	1,446,663	1,277,144
Bank of Baroda (Uganda) Limited	472,276	371,681
Cairo International Bank Limited	89,603	57,975
Centenary Bank Limited	801,390	607,120
Citibank Limited	518,981	412,775
Crane Bank Limited	741,618	613,834
DFCU Bank Limited	473,366	337,747
KCB Uganda Limited	103,660	33,583
Diamond Trust Bank Limited	255,488	123,978
National Bank of Commerce	18,876	17,817
Orient Bank Limited	372,650	315,052
Equity Bank Uganda Ltd	103,407	40,274
Global Trust Bank Uganda Ltd	36,814	36,424
Fina Bank	13,770	194
Stanbic Bank Limited	2,574,527	2,385,132
Standard Chartered Bank Limited	1,652,877	1,386,728
United Bank of Africa	40,359	7,120
Tropical Bank Limited	171,034	141,843
Housing Finance Bank (U) Ltd	179,359	127,871
EcoBank Uganda Ltd	47,285	-
	10,352,562	8,475,949
Credit Institution		
Merchantile Cedit Bank Limited	12,981	11,838
Capital Finance Corporation Limited	9,304	9,140
Opportunity Uganda Ltd	1,796	-
PostBank Uganda Limited	110,545	90,445
	134,626	111,423
Total contributions	10,487,188	8,587,372
	31-Dec-2010	31-Dec-2009
Risk Adjusted Premium	UShs '000	UShs '000
Equity Bank Uganda Limited	135,357	-
Global Trust Bank Uganda Limited	44,591	-
United Bank of Africa	50,463	-
	230,411	-



3. INTEREST ON GOVERNMENT TREASURY BILLS AND BONDS

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
Treasury bills	2,406,724	3,419,142
Treasury bonds	3,263,685	4,065,385
Interest from securities	5,670,409	7,484,527

4. INCOME FROM SECONDARY MARKET TRADING

	31-Dec-2010	31-Dec-2009
	UShs '000	UShs '000
Sales/ Redemption value	22,463,818	511,063
Amortised Cost of securities traded	(21,951,566)	(505,708)
Profit on trading	512,252	5,355
Interest accrued on securities	3,399,131	1,104,390
Total income from secondary market trading	3,911,383	1,109,745

5. AUDIT FEES

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
Fees for the year	13,280	12,500
(Overprovision)/Under provision in the previous year	(16)	331
	13,264	12,831

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 Bank of Uganda (as manager of the Deposit Protection Fund).

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
Under provision in the previous year	-	2,752
Fees for the year	197,532	141,769
	197,532	144,521
Over payment in prior years		23,549



7. TAXATION

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
Withholding Tax at 15%	1,356,716	1,288,338
Less: Reversal Withholding tax on interest accrued on sold treasury bills and bonds	(901,650)	-
	455,066	1,288,338
Add: Tax payable brought forward	1,343,046	1,481,121
Less: Withholding tax paid at 15%	(1,340,162)	(1,426,413)
Tax payable carried forward	457,950	1,343,046

A final tax of 15% is charged on interest income earned on Treasury Bills and Treasury Bonds in accordance with Section 122 of the Ugandan Income Tax Act.

8. INVESTMENTS IN GOVERNMENT SECURITIES

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
Treasury bills	31,824,378	32,398,617
Treasury bonds	68,977,096	44,214,886
	100,801,474	76,613,503

The treasury bills and bonds are further analysed as follows:

Maturity analysis:

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
Treasury bills (at cost)	31,287,187	31,149,638
Interest accrued	537,191	1,248,979
Total	31,824,378	32,398,617
Treasury bonds	66,461,284	42,010,858
Interest accrued	2,515,812	2,204,028
Total	68,977,096	44,214,886



	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
Treasury Bills		
Maturity within 91 days	14,206,747	2,804,951
Maturity after 91 days & before 181 days	8,494,456	19,897,296
Maturity after 182 days	9,123,175	9,696,370
	31,824,378	32,398,617
Treasury Bonds		
Maturity within 2 years	46,261,621	38,968,998
Maturity after 2 years and within 3 years	11,914,652	3,698,417
Maturity after 3 years and within 4 years	2,263,644	-
Maturity after 4 years	8,537,179	1,547,471
Total	68,977,096	44,214,886

The weighted average effective interest rate on treasury bills for the year was 9.03% (2009: 10.27%) and on treasury bonds was 10.69% (2009: 14.23%).

9. CASH AND BANK BALANCES

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
Cash at Bank of Uganda	21,604,772	26,969,161
	21,604,772	26,969,161

Included in the cash held at Bank of Uganda is US\$ 19,750 million payable to the Government of Uganda.

10. CREDITORS

	31-Dec-2010	31-Dec-2009
	Ushs '000	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	9,913
	19,760,392	19,760,392



11. UN-CLAIMED DEPOSITS

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
At 1st January	198,882	198,882
Un-claimed deposits paid in the year	-	-
	198,882	198,882

The balance constitutes unclaimed deposits by insured depositors.

12. EXPENSES PAYABLE

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
Audit fees	13,280	12,500
Management fees	50,820	-
	64,100	12,500

13. FUND BALANCE

	31-Dec-2010	31-Dec-2009
	Ushs '000	Ushs '000
At 1 January	82,291,393	66,589,856
Total comprehensive income for the year	19,633,529	15,701,537
At 31st December	101,924,922	82,291,393

14. REPORTING CURRENCY

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

15. RISK MANAGEMENT

Introduction and overview

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

- Currency risk
- Interest rate risk
- Liquidity risk

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk.



15. RISK MANAGEMENT (CONTINUED)

Risk management framework

The Fund's trustees have overall responsibility for the establishment and oversight of the 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 the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

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 Funds are invested in Government of Uganda Treasury bills and bonds. The interest rate risk exposure is managed by the Fund Manager, African Alliance Uganda Limited.

Exposure to interest rate risk

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

	Up to 3 months UShs '000	3 to 6 months UShs '000	6 to 12 months UShs '000	1 to 5 years UShs '000	Non-interest bearing UShs '000	Total 2010 UShs '000	Total 2009 UShs '000
Assets							
Cash at bank	-	-	-	-	21,604,772	21,604,772	26,969,161
Investments in treasury bills	14,206,747	8,494,456	9,123,175	-	-	31,824,378	32,398,617
Investments in treasury bonds	-	-	-	68,977,096	-	68,977,096	44,214,886
Receivables	-	-	-	-	-	-	23,549
Total assets	14,206,747	8,494,456	9,123,175	68,977,096	21,604,772	122,406,246	103,606,213
Liabilities							
Creditors	-	-	-	-	19,760,392	19,760,392	19,760,392
Unclaimed deposits	-	-	-	-	198,882	198,882	198,882
Accrued expenses	-	-	-	-	522,050	522,050	1,355,546
Total liabilities	-	-	-	-	20,481,324	20,481,324	21,314,820
Net interest rate gap	14,206,747	8,494,456	9,123,175	68,977,096	1,123,448	101,924,922	82,291,393

The Fund has no financial instruments with variable interest rates.



15. RISK MANAGEMENT (CONTINUED)

Fair value versus carrying amounts

The fair values of the financial assets and financial liabilities included in the statement of net assets are analyzed as below:

	31-Dec-10		31-Dec-09	
	Fair value	Carrying Amount	Fair value	Carrying Value
	UShs '000	UShs '000	UShs '000	UShs '000
Cash at bank	21,604,772	21,604,772	26,969,161	26,969,161
Investments in bills	31,824,378	31,824,378	32,398,617	32,398,617
Investments in Treasury bonds	68,977,096	68,977,096	44,214,886	44,214,886
Receivables	-	-	23,549	23,549
Creditors	(19,760,392)	(19,760,392)	(19,760,392)	(19,760,392)
Unclaimed deposits	(198,882)	(198,882)	(198,882)	(198,882)
Accrued expenses	(522,050)	(522,050)	(1,355,546)	(1,355,546)
	101,924,922	101,924,922	82,291,393	82,291,393

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

The Fund has access to funds raised from deposit protection premiums paid by financial and non-financial institutions annually. The 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 Fund strategy in the Investment Policy.

Exposure to liquidity risk

	1 to 3				Total 2010	Total 2009
	Up to 1 month	months	3 to 12 months	1 to 5 years		
	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000
Assets						
Cash at bank	21,604,772	-	-	-	21,604,772	26,969,161
Investments in treasury bills	-	-	31,824,378	-	31,824,378	32,398,617
Investments in treasury bonds	-	-	-	68,977,096	68,977,096	44,214,886
Debtors	-	-	-	-	-	23,549
Total assets	21,604,772	-	31,824,378	68,977,096	122,406,246	103,606,213
Liabilities						
Creditors	19,760,392	-	-	-	19,760,392	19,760,392
Unclaimed deposits	198,882	-	-	-	198,882	198,882
Accrued expenses	522,050	-	-	-	522,050	1,355,546
Total liabilities	19,760,392	-	-	-	20,481,324	21,314,820
Liquidity gap As at 31 December 2010	1,123,448	-	31,824,378	68,977,096	101,924,922	82,291,393



16. RELATED PARTY TRANSACTIONS

The Deposit Protection Fund and Bank of Uganda ('the Bank') 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 the Fund.

1. The members of staff working on the Fund are employees of the Bank, and it is the Bank that fully meets their salaries.
2. The Fund's operations are carried out within the central Bank Premises.

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