



ANNUAL REPORT 2016

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2016 ANNUAL REPORT

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ABOUT US

Orient Bank is a leading private sector commercial Bank in Uganda. We began operations in 1993 and have grown steadily since then due to our professional management and prudent lending and investment policies.

Our Vision

To be the pace setter and preferred financial partner for our stakeholders

Our Mission

To deliver service that provides superior value to our customers

OUR VALUES

We summarise our core values as **SPIRIT**



Service

We provide service that is timely, helpful, friendly and convenient



Resilience

We are strong and determined and adapt to the world around us



Passion

We are enthusiastic and self motivated to excel in all that we do



Integrity

We are honest, open and straightforward with our colleagues, customers, investors, regulators and community



Innovation

We are open-minded and constantly striving to improve our processes, platforms and offerings



Teamwork

We are collaborative and combine our collective knowledge and skills to outperform our competitors

OUR BRANCH NETWORK

Branches

Head Office/ Main Branch

Orient Plaza, No. 14 Kampala Road
P.O. Box 3072, Kampala

Acacia Branch

Acacia Mall - Kisementi
Kampala

Arua Branch

Plot 12 Avenue Road
Arua Municipality

Ben Kiwanuka Branch

Haider Plaza - Ben Kiwanuka Street
Kampala

Bweyogerere Branch

Mamerito House, Jinja Road,
Bweyogerere

Entebbe Town Branch

Plot 29 Kampala Road
Entebbe

Entebbe Airport Branch

Entebbe International Airport
Entebbe

Garden City Branch

Garden City Mall - Yusuf Lule Road
Kampala

Gulu Branch

Plot 15 Awere Road
Gulu

Jinja Branch

Plot 8 Lady Alice Muloki Road
Jinja

Kabalagala Branch

Plot 1900 Ggaba Road,
Kampala

Katwe Branch

Muganzilwaza Plaza - Kibuye
Kampala

Kawempe Branch

Plot 78 Bombo Road
Kampala

Kikuubo Branch

Grand Corner House
Kampala

Kisekka Branch

Lohana Arcade, Nakivubo Road
Kampala

Kololo Branch

Nyonyi Gardens, Wampewo Avenue
Kampala

Makerere Branch

Ham Shopping Mall, Makerere Hill Road
Kampala

Mbale Branch

Plot 23 Naboa Road
Mbale Municipality

Nkrumah Road Branch

Mirembe Arcade, Nasser Road
Kampala

Ntinda Branch

Capitla Shoppers' Mall Ntinda
Kampala

William Street Branch

William Street
Kampala



The Academy was developed by Orient Bank to address two twin challenges facing the Ugandan economy i.e. unemployment and high business failure rates. By helping small businesses to survive and grow, we believe we are contributing to wealth creation and job creation.



The Orient Business Academy is an annual programme to provide small businesses that have been in operation for at least 18 months and have a turnover of less than UGX 120 million with financial literacy and business management training so that they can survive and thrive.

The Academy is run in partnership with Makerere University Business School (MUBS) and was developed by Orient Bank to address two twin challenges facing the Ugandan economy i.e. high unemployment and high business failure rates. By helping small businesses to survive and grow, we believe we are contributing to wealth creation and job creation.

The Academy was launched in August 2016 and over 120 small business owners applied to join the academy.

30 were selected to be part of the pioneer class and were over a six month period trained in different aspects of business management including Market Analysis, Sales & Marketing, Human Resource



(Above) Overall Winner 2ambale.com received 20m
(Below) 1st Runner-Up Elma Foods Ltd received 10m
Handed to them by Dr. Louis Kasekende - Deputy Governor Bank of Uganda (left) and Prof. Wasswa Balunywa - Principal Makerere University Business School (right)



Members of the Orient Bank Board of Directors and representatives from Bank of Uganda & Makerere University Business School in a group photo with the Pioneer Granduands of the Orient Business Academy.

Management, Operations Planning, Book-keeping, Financial Planning and Financial Reporting. As part of the training, the small business owners were tasked to come up with Business Growth Plans and the best 5 business plans were to receive funding of up to UGX 30 million to grow their business.

2ambale,

an e-commerce business, emerged the best in this exercise and was awarded UGX 20 million shillings.

Elma Foods,

who produce yoghurt for the lower segment of the market emerged second and were awarded UGX 10 million.

Happy Bee Honey, Mutundwe Chalk Solutions & African Culture Leather Factory each received UGX 5 million.

The next edition of the Academy will run from August 2017 – February 2018.

(Above) 2nd Runner-Up Happy Bee Honey received 5m
(Below) One of the participants Adong Jane, flanked by Mr Michael Cook - Chairman Orient Bank Board of Directors (left), and Prof. Wasswa Balunywa - Principal Makerere University Business School (right)



OUR PRODUCT PORTFOLIO

We are a customer focused bank and have developed tailor-made products to efficiently and effectively meet our customers needs.



CURRENT ACCOUNTS

- Current Account (Personal & Business)
- SME Daily Account
- Foreign Currency Account (Personal & Business)
- Kyakala Account (Personal & Business)
- Premium Account
- Sapphire Account



SAVINGS ACCOUNTS

- Classic Saving Accounts
- Dollar Savings Account (DOSA)
- Future Children's Savings Account
- CHAMA Investment Club Account
- Savings Account Plus
- Diaspora Account
- Target Savings Account



RETAIL CREDIT

- Kwik Cash Salary Loans
- SME Loans



TRADE FINANCE

- Letters of Credit
- Guarantees/Bid Bonds



CORPORATE CREDIT

- Commercial Loans
- Overdrafts
- Guarantees/Performance/Bid Bonds



INTERNATIONAL CURRENCY SERVICES

- Foreign Currency Accounts
- Telegraphic Transfer
- Forex

OTHER SERVICES

We have considerable experience in the provision of customer payments and cash management services for big organizations both local and foreign which includes;

- Salary Processing
- Internal transfers
- Safe custody
- Collections - (Bill Payments (URA taxes, UMEME, NWSC bills, KCCA charges, NSSF)

CORPORATE INFORMATION

DIRECTORS

Mr. Michael Cook	Chairman
Mr. Ketan Morjaria	Vice Chairman
Mr. Julius Kakeeto	Managing Director/CEO
Ms. Darshana Bhatia	Executive Director (Appointed on 1 July 2016)
Mr. Hemen Shashikant Shah	Director
Mr. Francis M. Byaruhanga	Director
Mr. Joram Kahenano	Director
Mr. Zhong Shuang Quan (Alternative: Mr. Jay Karia)	Director

COMPANY SECRETARY

Nicholas Ecimu
c/o Sebalu & Lule Advocates
Certified Public Secretaries (Uganda)
P. O. Box 2255, Kampala

COMPANY LAWYERS

Shonubi Musoke & Company Advocates
SM Chambers
Plot 14, Hannington Road
P. O. Box 3213, Kampala

AUDITOR

Ernst & Young
Certified Public Accountants
18 Clement Hill Road
Shimoni Office Village
P. O. Box 7215
Kampala

REGISTERED OFFICE

Orient Plaza
No. 14 Kampala Road
P. O. Box 3072
Kampala

CHAIRMAN'S STATEMENT



Michael Cook
Chairman, Board of Directors

2016 was the second full year of Orient Bank's operation under the ownership of the Founders' Consortium and 8 Miles LLC. It was a challenging year for the Ugandan economy and the banking sector.

Orient Bank was however able to overcome these challenges to build on the progress made in 2015 resulting into significant improvements in its performance.

Operating Environment

The Ugandan economy experienced a slowdown with GDP growth falling from 5% in 2015 to 4.6% in 2016. This was lower than the projected growth of 5% and was attributable to a fall in agricultural output and exports, and reduced growth in the services sector. The elections early in the year also had an unsettling effect on the domestic economy. The steep fall in global oil prices delayed even further the prospect of local oil production and revenue to offset the growing domestic and international debt burden.

...it was a challenging year for the Ugandan economy and the banking sector.

Orient Bank was however able to overcome these challenges and made significant improvements in its performance

More positively there was an overall downward inflationary trend in 2016. Annual headline inflation fell from 8.4% in December 2015 to 5.5% in December 2016 with core inflation reducing from 7.6% to 5.9% over the same period. The drop was in part due to the stabilising of the exchange rate, lower food and fuel prices for the larger part of the year and subdued domestic demand.

The dampened inflationary pressures allowed an easing in monetary policy, with Bank of Uganda reducing the Central Bank Rate from 17% at end of 2015 to 12% by close of 2016.

Financial Performance

In spite of the difficult operating environment, Orient Bank's profitability grew significantly with profit before tax rising from 472 million shillings in the year ending December 2015 to 7.9 billion shillings in the year ending December 2016.

Improved performance was particularly registered in the following areas;

- Total assets grew from 538 billion to 554 billion
- Loans & advances grew from 177 billion to 250 billion
- Total income grew from 65.5 billion to 74.4 billion and,
- Non-Performing Loans ratio reduced from 3.1% to 1.5%

Strategy into the Future

Following the change in ownership two years ago, the bank revised its business strategy to focus on four key pillars; Performance, Service, People and Controls. This strategy is bearing fruit as can be seen in the Bank's greatly improved financial performance, significant growth in profitability and improvement in the quality and spread of the loan book. One of the key means to deliver this strategy is the Bank's pioneering application of IT technology to provide faster and more secure e-banking, point of sale and credit and debit card facilities to our customers.

Conclusion

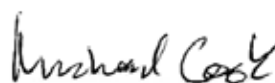
The bank has delivered a greatly improved performance over the last year. We shall not however rest on our laurels. We shall continue to drive our strategy to ensure further consolidation and improvement in performance.

Following the change in ownership two years ago, the bank revised its business strategy to focus on four key pillars; Performance, Service, People and Controls. This strategy is bearing fruit as can be seen in the Bank's greatly improved financial performance, significant growth in profitability and improvement in the quality and spread of the loan book.

I should like to thank Orient Bank's management and staff for their efforts and achievements in delivering the business strategy, improving profitability and for building a firm foundation for future growth.

I should also like to thank our Auditors, Legal Advisers and Board Secretary for their professional input and advice. And as always I am grateful to my fellow Board members for their support, expertise and wisdom.

Finally, I should like thank our customers for their continued loyalty, patronage, and support. You are the reason we exist and we pledge continuously to work to maintain and improve our services and to provide you with modern banking with a tradition of trust and reliability.



Michael Cook
Chairman Board of Directors

MANAGING DIRECTOR/CEO's STATEMENT



Julius Kakeeto
Managing Director/CEO

It is with great pleasure that I present Orient Bank's annual financial report for the year 2016.

2016 was remarkable as the Bank registered significant improvements in performance across several indicators despite the tough environment. The Bank grew its profit before tax to 7.9 billion up from 472 million shillings in the previous year.

Customer Service is the foundation of our performance and as such we are continuously devising means of ensuring customer satisfaction. During the year, the bank launched a Customer Contact Centre, a unit with multiple channels for customers to effortlessly reach the bank.

OVERVIEW OF THE ACHIEVEMENTS FOR FY 2016

Credit Management

Loans and advances grew by 41% from 177 billion to 250 billion. The Bank has continued to uphold prudent lending practices & kept close to its customers to ensure a high quality loan book. This has seen our non-performing assets reduce to 3.1% in 2015 and to 1.5% in the year ending December 2016.

Customer Service

Customer Service is the foundation of our performance and as such we are continuously devising means of ensuring customer satisfaction. During the year, the bank launched a Customer Contact Centre, a unit with multiple channels for customers to effortlessly reach the bank for any inquiries or queries through our toll free line, whatsapp, email and social media.

Technology

Orient Bank has continued to be at the forefront of adapting new technologies to facilitate customer self service whilst expanding our service channels.

At the start of the year, the Bank revamped its Internet Banking system to improve functionality. In addition, Visa Infinite Card was launched & the Bank also began accepting Master Card at all its ATMs & POS machines.

Corporate Social Responsibility

As a bank, we are committed to supporting the communities in which we operate through our annual Corporate Social Responsibility programs. The Bank launched the Orient Business Academy, a program to provide micro and small enterprises with financial literacy and business management skills. The programme is being run in partnership with the Makerere University Business School - Entrepreneurship Centre and has passed out its pioneer class of 22 entrepreneurs.

FOCUS FOR 2017

In 2017, the Bank will continue with its efforts of strengthening customer relationships & improving on our service delivery channels. The Bank will also launch new products including Agency Banking & integration of customers' accounts with mobile money.

CONCLUSION

I am grateful to all our customers. The Bank remains committed to delivering superior value and look forward to serving your needs in 2017 and beyond. Finally, I would like to thank all my colleagues who have worked tirelessly to restore the bank back to profitability and growth.

loans and advances grew by 41%

250 billion
up from 177 billion

non-performing
assets reduced to

1.5%
down from 3.1%

Total Income grew to

74.4 billion
up from 65.5 billion

22

Number of entrepreneurs trained
in the Orient Business Academy
pioneer class



Julius Kakeeto
Managing Director/CEO



BOARD OF DIRECTORS

SITTING (L - R)

Julius Kakeeto - **MD/CEO**
Ketan Morjaria - **Vice Chairman**
Michael Cook - **Chairman**
Hemen Shashikant Shah - **Director**

STANDING (L - R)

Zhong Shuang Quan - **Director**
Joram Kahenano - **Director**
Darshana Bhatia - **Executive Director**
Nicholas Ecimu - **Secretary**
Francis M. Byaruhanga - **Director**



BOARD OF DIRECTORS



MICHAEL COOK
Chairman

Michael Cook was a senior career diplomat and a former British High Commissioner to Uganda, with a wide range of political and commercial experience in Scandinavia, the Caribbean, Turkey and Africa. After retiring from the Diplomatic Service he was a member of a commission established by David Cameron before he became British Prime Minister, to advice on future aid policy.



KETAN MORJARIA
Vice Chairman

Mr. Morjaria is a founder and Board Member of both Orient Bank and Credit Bank in Kenya, and a strategic shareholder in both institutions. He has wide experience in commerce and property development in Africa, the United Kingdom, and the Middle East. He is a member of the Institute of Chartered Accountants of England and Wales and the Institute of Certified Public Accountants of Uganda.



JULIUS KAKEETO
Managing Director/CEO

Mr. Kakeeto is a Fellow of the Association of Chartered Certified Accountants (FCCA) and holds an MBA from Manchester Business School, United Kingdom. He has served in several management capacities, among others, in Citigroup London as a Vice President in Global Markets, in Citibank Uganda as Chief Financial Officer, and in Equity Bank Uganda as Finance Director. He started his career with Ernst & Young.



**FRANCIS MAGEMBE
BYARUHANGA**
Non Executive Director

Mr. Byaruhanga holds a Masters Degree in Business Administration. He has over 25 years experience in the areas of Management, Finance, Accounting, Procurement and Logistics Management. He has worked with rural water and sanitation project on an executive level and was a Director Road Agency Formation Unit.



JORAM KAHENANO
Non Executive Director

Mr. Kahenano is a Fellow of the Uganda Institute of Bankers and a Fellow of Chartered Institute of Bankers. He has held various director positions in Bank of Uganda where he worked for 36 years. He has in addition served on various Boards including Uganda Institute of Bankers, Makerere University, Mengo Hospital, Church of Uganda and Uganda Christian University. Joram is currently a trustee of Uganda Small Scale Industries.



ZHONG SHUANG QUAN
Non Executive Director

Mr. Zhong Shuang Quan holds a Bachelors of Arts in Business Management from the Sichuan Normal University. He is a prominent Businessman with diversified interests in East Africa, Asia and other parts of the world specializing in the fields of Manufacturing household plastics, Large Scale Rice farming, Import Trade in household goods and Road Transport. He has Managerial experience in Trade and Manufacturing Enterprise.



Cr Al Ri

DARSHANA BHATIA

Executive Director

Ms. Bhatia is a member of the Institute of Chartered Accountants of India. She previously worked as Head of Finance at Exim Bank. Prior to that, Darshana worked as Head of Finance at Orient Bank from 2006 to 2013. She holds a Bachelor's Degree in Commerce – Financial Accounting & Auditing from the University of Mumbai. She is also a member of the Institute of Cost & Works Accountants of India & the Institute of Certified Public Accountants of Uganda.



Ri Al Co Cr

HEMEN SHASHIKANT SHAH

Non Executive Director

Mr. Hemen Shah is a graduate of Harvard University and a professional banker with over 23 years of cognitive experience. Mr. Shah has held several Board memberships including Directorships on the Boards of; SCB Sierra Leone, Gambia, Cameroon, Ghana and Chairman, Board of Directors for Standard Chartered Bank Cote d'Ivoire. Mr. Shah is a founding partner and Board member of 8 miles LLP.

**NICHOLAS ECIMU**

Company Secretary

Mr. Ecimu practices law with Sebalu & Lule Advocates, a premier corporate and commercial law firm, where he is a Partner.

He has previously served with the Privatisation & Utility Sector Reform Project (PUSRP) in Uganda's Ministry of Finance, Planning and Economic Development and was attached to Edward Nathans Sonnenbergs, one of South Africa's premier law firms, as visiting Attorney in 2006.

KEY

AL Member of Asset and Liability Committee

Cr Member of Credit Committee

Au Member of Audit Committee

Ri Member of Risk/Compliance Committee

Co Member of Compensation Committee

● Committee Chairman

EXECUTIVE COMMITTEE



JULIUS KAKEETO
Managing Director/CEO



DARSHANA BHATIA
Executive Director



PANKAJ SHARMA
Head of Operations



MILLIE NKAJA
Head of Credit

DIRECTORS' REPORT

The directors present their report together with the audited consolidated financial statements of the Orient Bank Limited (the "Bank") and its subsidiary (together "the Group") for the year ended 31 December 2016.

ACTIVITIES

The principal activities of the Group are the provision of commercial banking, stock brokering and related financial services.

RESULTS AND DIVIDEND

The Group and Bank profit for the year of Ushs 6,036 million (2015: profit of Ushs 1,538 million) and Ushs 5,819 million (2015: profit of Ushs 1,517 million) respectively has been transferred to retained earnings. The directors do not recommend payment of dividend for the year (2015: Nil).

CORPORATE GOVERNANCE

Orient Bank Limited has established a tradition of best practices in corporate governance. The corporate governance framework is based on an effective independent board, the separation of the board's supervisory role from the executive management and the constitution of board committees generally comprising a majority of non-executive directors and chaired by a non-executive director to oversee critical areas.

BOARD OF DIRECTORS

Orient Bank Limited has a broad-based Board of Directors. The board functions either as a full board or through various committees constituted to oversee specific operational areas. The Board has constituted six committees. These are the Risk/Compliance Committee, Asset & Liability Management Committee, Compensation and General Purpose Committee, Audit Committee, Credit Committee, Board IT Committee. All of these Board Committees are constituted and chaired by non executive directors. As at 31 December 2016, the Board of Directors consisted of 8 members.

a) Risk/Compliance committee

This committee is headed by a Non-Executive Director and meets quarterly. It is comprised of the following members:

- i) Non-Executive Director
- ii) Non-Executive Director
- iii) Managing Director/CEO
- iv) Executive Director

b) Asset and Liability Committee

ALCO is headed by a Non Executive Director and meets quarterly. It also comprises the following:

- i) Non-Executive Director
- ii) Non-Executive Director
- iii) Managing Director / CEO
- iv) Executive Director

c) Compensation and General Purpose Committee

This committee decides on recruitment at senior levels based on responsibilities and remuneration of Management staff and directors. The committee is headed by a Non-Executive Director and comprises of:

- i) Non-Executive Director
- ii) Non-Executive Director

d) Audit Committee

This Committee is chaired by a Non-Executive Director. It meets every quarter and also comprises of:

- i) Non-Executive Director
- ii) Non-Executive Director
- iii) Non-Executive Director

e) Credit Committee

The Board Credit Committee is chaired by the Non-Executive Director. It meets quarterly and comprises of:

- i) Non-Executive Director
- ii) Non-Executive Director
- iii) Executive Director
- iv) Managing Director / CEO

f) IT Committee

The Board IT Committee is chaired by a Non-Executive Director. It meets quarterly and comprises:

- i) Non-Executive Director
- ii) Non-Executive Director
- iii) Executive Director
- iv) Managing Director / CEO

In addition to the above committees, there are committees on a management level comprised of senior management whose frequency of meetings is daily, weekly, monthly and quarterly.

DIRECTORS AND THEIR BENEFITS

During the financial year and up to the date of this report, other than as disclosed in Note 38 to the financial statements, no director has received or ➡

DIRECTORS' REPORT (CONTINUED)

- become entitled to receive any benefit other than directors' fees, and amounts receivable by executive directors under employment contracts and the senior staff incentive scheme. The aggregate amount of emoluments for directors for services rendered in the financial year is disclosed in Note 37 to the financial statements.

Neither at the end of the financial year nor at any time during the year did there exist any arrangement to which the Bank is a party whereby directors might acquire benefits by means of acquisition of shares in or debentures of the Bank or any other body corporate.

DIRECTORS

The directors who held office during the year and up to the date of this report are indicated on page 3.

AUDITOR

Ernst & Young were appointed during the year and served as auditors for the year ended 31 December 2016.

BY ORDER OF THE BOARD



Nicholas Ecimu

C/O Sebalu & Lule Advocates
Kampala
27 April 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act of Uganda, 2012 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group as at the end of the financial year and of its results for that year. It also requires the directors to ensure that the Group keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group. They are also responsible for safeguarding the assets of the Group.

The directors accept responsibility for these financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards, the requirements of the Companies Act of Uganda, 2012 and the Financial Institutions Act, 2004 as amended by the financial institutions (Amendment) Act, 2016.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit

and cash flows for the year ended 31 December 2016 in accordance with International Financial Reporting Standards and with the requirements of the Companies Act of Uganda, 2012 and the Financial Institutions Act 2004 as amended by the financial institutions (Amendment) Act, 2016.

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The financial statements were approved by the Board of Directors on 21 April 2017 and signed on its behalf by;



Michael Cook
Chairman



Ketan Morjaria
Vice Chairman



Julius Kakeeto
Managing Director/ CEO



Nicholas Ecimu
Company Secretary

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ORIENT BANK LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Orient Bank Uganda Limited set out on pages 11 to 103. These financial statements comprise the consolidated and bank statement of financial position as at 31 December 2016, and the consolidated and bank statement of comprehensive income, the consolidated and bank statement of changes in equity and the consolidated and bank statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and Bank as at 31 December 2016, and of the Group and Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012 and the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act, 2016.

Basis of the Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC code) and other independence requirements applicable to performing audits of Orient Bank Uganda Limited. We have fulfilled our other ethical responsibilities in accordance with the IFAC Code, and in accordance with other ethical requirements applicable to performing the audit of Orient Bank Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of Uganda, 2012. The other information does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012 and the Financial Institutions Act, 2004 as amended by the Financial Institutions (Amendment) Act, 2016, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

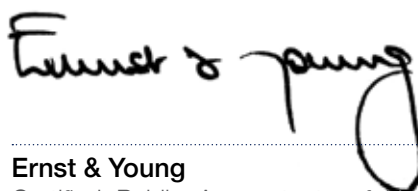
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Report on other legal requirements

As required by the Companies Act of Uganda, 2012, we report to you based on our audit 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 Group and Bank, so far as appears from our examination of those books; and
- iii) the Group and Bank's statement of financial position and statement of comprehensive income account are in agreement with the books of account.

The Engagement partner on the audit resulting is this independent auditor's report is CPA Geoffrey Byamugisha - P0231.



Ernst & Young

Certified Public Accountants of Uganda Kampala, Uganda

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2016 Ushs'000	2015 Restated* Ushs'000
Interest and similar income	5	50,311,082	40,412,654
Interest and similar expenses	5	(17,851,254)	(17,418,399)
Net interest income		32,459,828	22,994,255
Loan impairment charges	6	(2,830,954)	(5,668,591)
Net interest income after loan impairment charges		29,628,874	17,325,664
Net fee and commission income	7	20,095,460	29,686,886
Net operating income		49,724,334	47,012,550
Net foreign exchange gains/losses	8	4,021,648	(4,529,013)
Employee benefits expenses	9	(15,699,891)	(14,213,247)
General and administrative expenses	10	(11,459,543)	(9,899,087)
Depreciation and amortisation	11	(5,169,185)	(5,247,965)
Reversal of charges	12	(1,036,776)	(1,139,542)
Other operating expenses	13	(12,443,023)	(11,510,986)
Profit before income tax		7,937,564	472,710
Income (expense)/tax credit	14	(1,902,053)	1,065,371
Profit for the year		6,035,511	1,538,081
Other comprehensive income			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods.			
Revaluation surplus on buildings	25,26	1,065,718	-
Deferred income tax on revaluation gain	27	(319,715)	-
		746,003	-
Total comprehensive income for the year		6,781,514	1,538,081
Profit attributable to:			
Owners of the company		5,992,210	1,533,776
Non-controlling interests		43,301	4,305
		6,035,511	1,538,081
Total comprehensive income for the year attributable to:			
Owners of the company		6,738,213	1,533,776
Non-controlling interests		43,301	4,305
		6,781,514	1,538,081

BANK STATEMENT OF COMPREHENSIVE INCOME

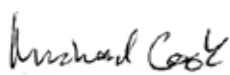
	Note	2016 Ushs'000	2015 Restated* Ushs'000
Interest and similar income	5	50,311,082	40,412,654
Interest and similar expenses	5	(17,851,254)	(17,418,399)
Net interest income		32,459,828	22,994,255
Loan impairment charges	6	(2,830,954)	(5,668,591)
Net interest income after loan impairment charges		29,628,874	17,325,664
Net fee and commission income	7	19,593,996	29,508,959
Net operating income		49,222,870	46,834,623
Net foreign exchange gains/losses	8	4,021,648	(4,529,013)
Employee benefits expenses	9	(15,577,028)	(14,114,279)
General and administrative expenses	10	(11,454,853)	(9,889,088)
Depreciation and amortisation	11	(5,166,529)	(5,246,155)
Reversal of charges	12	(1,036,776)	(1,139,542)
Other operating expenses	13	(12,383,271)	(11,475,237)
Profit before income tax		7,626,061	441,309
Income (expense)/tax credit	14	(1,807,054)	1,075,249
Profit for the year		5,819,007	1,516,558
Other comprehensive income that will not be reclassified to the income statement			
Revaluation surplus on buildings	25,26	1,065,718	-
Deferred income tax on revaluation gain	27	(319,715)	-
Other comprehensive income for the year, net of tax		746,003	-
Total comprehensive income for the year		6,565,010	1,516,558

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2016 Ushs'000	2015 Restated* Ushs'000
Assets			
Cash and balances with Central Bank	16	68,282,059	77,516,687
Deposits and balances due from banking institutions	18	90,078,616	141,003,197
Derivative financial instruments	19	376,700	-
Government securities – Held-to-maturity	20	99,870,917	98,362,345
Loans and advances to customers	22	250,755,828	177,020,954
Other assets	23	6,405,163	7,804,643
Current income tax recoverable	24	196,846	349,942
Property and equipment	25	11,541,193	11,629,949
Intangible assets	26	3,918,290	3,051,650
Deferred income tax asset	27	22,791,061	21,944,698
Total assets		554,216,673	538,684,065
Liabilities			
Deposits due to other banks	28	3,613,008	4,002,164
Derivative financial instruments	19	40,476	-
Customer deposits	29	423,248,243	440,372,643
Refinance loans	30	120,870	104,167
Other liabilities	31	19,221,187	13,330,117
Deferred income tax liability	27	879	-
Total liabilities		446,244,663	457,809,091
Capital and reserves			
Issued capital	32	96,750,000	76,500,000
Revaluation reserve	33	3,116,160	2,601,106
Credit risk reserve	34	2,982,438	225,099
Retained earnings		5,029,239	1,497,897
Non controlling interests		94,173	50,872
Total equity		107,972,010	80,874,974
Total equity and liabilities		554,216,673	538,684,065

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made. Refer to note 38.

The financial statements were authorised for issue by the Board of Directors on 21 April 2017 and signed on its behalf by:



Michael Cook
Chairman



Ketan Morjaria
Vice Chairman



Julius Kakeeto
Managing Director/ CEO



Nicholas Ecimu
Company Secretary

BANK STATEMENT OF FINANCIAL POSITION

	Note	2016 Ushs'000	2015 Restated* Ushs'000
Assets			
Cash and balances with Central Bank	16	68,282,059	77,516,687
Deposits and balances due from banking institutions	18	90,035,159	140,957,123
Derivative financial instruments	19	376,700	-
Government securities – Held-to-maturity	20	99,870,917	98,362,345
Investment in subsidiary	21	80,000	80,000
Loans and advances to customers	22	250,755,828	177,020,954
Other assets	23	6,269,439	7,693,964
Current income tax recoverable	24	204,305	354,615
Property and equipment	25	11,538,262	11,624,362
Intangible assets	26	3,918,290	3,051,650
Deferred income tax asset	27	22,791,061	21,945,634
Total assets		554,122,020	538,607,334
Liabilities			
Deposits due to other banks	28	3,613,008	4,002,164
Derivative financial instruments	19	40,476	-
Customer deposits	29	423,624,540	440,526,762
Refinance loans	30	120,870	104,167
Other liabilities	31	19,147,023	13,278,670
Total liabilities		446,545,917	457,911,763
Capital and reserves			
Issued capital	32	96,750,000	76,500,000
Revaluation reserve	33	3,116,160	2,601,106
Credit risk reserve	34	2,982,438	225,099
Retained earnings		4,727,505	1,369,366
Total equity		107,576,103	80,695,571
Total equity and liabilities		554,122,020	538,607,334

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made. Refer to note 38.

The financial statements were authorised for issue by the Board of Directors 21 April 2017 and signed on its behalf by:

Michael Cook
Chairman

Ketan Morjaria
Vice Chairman

Julius Kakeeto
Managing Director/ CEO

Nicholas Ecimu
Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital Ushs'000	Revalu- ation re- serve Ushs'000	Available for sale fair value reserve Ushs'000	Credit risk reserve Ushs'000	Retained earnings Ushs'000	Total attributable to equity holders of the parent Ushs'000	Non- controlling interest Ushs'000	Total equity Ushs'000
Year ended 31 December 2015	(Note 32)	(Note 33)		(Note 34)				
At start of year	76,500,000	2,562,073	6,357	5,005,634	(4,783,738)	79,290,326	46,567	79,336,893
Profit for the year	-	-	-	-	1,533,776	1,533,776	4,305	1,538,081
Increase in revaluation surplus on land	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	1,533,776	1,533,776	4,305	1,538,081
Transfer to retained earnings ^{*1}	-	-	(6,357)	-	6,357	-	-	-
Transfer of excess depreciation (net of deferred tax) ^{*2}	-	39,033	-	-	(39,033)	-	-	-
Total	76,500,000	2,601,106	-	5,005,634	(3,282,638)	80,824,102	50,872	80,874,974
Transfer to credit risk reserve (Note 35)	-	-	-	(4,780,535)	4,780,535	-	-	-
At end of year (Restated*)	76,500,000	2,601,106	-	225,099	1,497,897	80,824,102	50,872	80,874,974
Year ended 31 December 2016								
At start of year	76,500,000	2,601,106	-	225,099	1,497,897	80,824,102	50,872	80,874,974
Profit for the year	-	-	-	5,992,210	5,992,210	5,992,210	43,301	6,035,511
Increase in revaluation surplus	-	746,003	-	-	-	746,003	-	746,003
Total comprehensive income for the year	-	746,003	-	-	5,992,210	6,738,213	43,301	6,781,514
Transfer to retained earnings	-	(230,949)	-	-	296,471	65,522	-	65,522
Total	76,500,000	3,116,160	-	225,099	7,786,578	87,627,837	94,173	87,722,010
Transfer to credit risk reserve	-	-	-	2,757,339	(2,757,339)	-	-	-
Transactions with owners								
Increase in issued capital	20,250,000	-	-	-	-	20,250,000	-	20,250,000
At end of year	96,750,000	3,116,160	-	2,982,438	5,029,239	107,877,837	94,173	107,972,010

Note:

* 1 Transfer to retained earnings: During the year ended 31 December 2015, following the disposal of available for sale equity investments, an erroneous entry was passed to available for sale fair value reserve and retained earnings of Ushs 6.3 million as seen above. The correct entry should have been a debit to other comprehensive income and credit to profit or loss. Since this amount is not material, no adjustment has been made to correct the erroneous entry.

* 2 Transfer of excess depreciation (net of deferred tax: During the year ended 31 December 2015, there was a transfer of excess depreciation amounting to Ushs 39 million which was erroneously credited to the revaluation reserve account and debited to retained earnings. This has been subsequently corrected in 2016 in the transfer to retained earnings line through a debit and credit to the revaluation reserve and retained earnings, respectively, of Ushs 78 million.

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made. Refer to note 38.

BANK STATEMENT OF CHANGES IN EQUITY

	Issued capital Ushs'000 (Note 32)	Revaluation reserve Ushs'000 (Note 33)	Credit risk reserve Ushs'000 (Note 34)	Retained earnings Ushs'000	Total equity Ushs'000
Year ended 31 December 2015					
At start of year	76,500,000	2,562,073	5,005,634	(4,888,694)	79,179,013
Profit for the year	-	-	-	1,516,558	1,516,558
Increase in revaluation surplus on land	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,516,558	1,516,558
Transfer of excess depreciation (net of deferred tax)*3	-	39,033	-	(39,033)	-
Total	76,500,000	2,601,106	5,005,634	(3,411,169)	80,695,571
Transfer to credit risk reserve	-	-	(4,780,535)	4,780,535	-
At end of year (Restated*)	76,500,000	2,601,106	225,099	1,369,366	80,695,571
Year ended 31 December 2016					
At start of year	76,500,000	2,601,106	225,099	1,369,366	80,695,572
Profit for the year	-	-	-	5,819,007	5,819,007
Increase in revaluation surplus	-	746,003	-	-	746,003
Total comprehensive income for the year	-	746,003	-	5,819,007	6,565,010
Transfer to retained earnings	-	(230,949)	-	296,471	65,522
Total	76,500,000	3,116,160	225,099	7,484,844	87,326,103
Transfer to credit risk reserve	-	-	2,757,339	(2,757,339)	-
Transactions with owners:					
Increase in issued capital	20,250,000	-	-	-	20,250,000
At end of year	96,750,000	3,116,160	2,982,438	4,727,505	107,576,103

Note:

*3 Transfer of excess depreciation (net of deferred tax): During the year ended 31 December 2015, there was a transfer of excess depreciation amounting to Ushs 39 million which was erroneously credited to the revaluation reserve account and debited to retained earnings. This has been subsequently corrected in 2016 in the transfer to retained earnings line through the debit and credit to the revaluation reserve and retained earnings respectively with Ushs 78 million.

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made. Refer to note 38.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2016 Ushs'000	2015 Restated* Ushs'000
Operating activities			
Profit before income tax		7,937,564	472,710
Adjustments:			
Depreciation	25	2,507,727	2,812,105
Amortisation of intangible assets	26	2,661,458	2,435,860
Unrealised foreign exchange gain		(336,224)	-
Profit on disposal of property and equipment		(9,059)	(100,835)
Impairment charge on loans and advances		2,830,954	5,668,591
Provision on litigation		1,797,819	803,111
Loss on disposal of shares		-	1,576
Profit/ (loss) before changes in operating assets and liabilities		17,390,239	12,093,118
Decrease/(increase in cash reserve requirement		1,956,000	(3,350,000)
Decrease in deposits due to banking institutions		(389,156)	(998,110)
Increase in loans and advances		(76,717,028)	(28,586,117)
(Increase)/decrease in investment in government securities		(9,399,219)	24,074,205
Increase in other assets		1,305,189	(3,132,612)
(Decrease)/increase in customer deposits		(17,124,400)	52,271,042
Increase/(decrease) in BOU refinance loan		16,703	(62,500)
Increase in other liabilities		4,093,251	2,169,034
Income taxes paid	24	(2,847,699)	(2,803,233)
		(99,106,359)	39,581,709
Net cash flows used in/generated from operating activities		(81,716,120)	51,674,827
Investing activities			
Purchase of property and equipment	25	(4,710,717)	(3,212,524)
Proceeds from sale of shares		-	26,147
Proceeds from sale of property and equipment		54,038	129,980
Purchase of intangible assets	26	(216,377)	(1,056,275)
Net cash flows used in investing activities		(4,873,056)	(4,112,672)
Financing activities			
Increase in share capital	32	20,250,000	-
Net cash flows generated from financing activities		20,250,000	-
Cash and cash equivalents at start of year		212,371,231	164,506,629
Net (decrease)/increase in cash and cash equivalents		(66,339,176)	47,562,155
Net foreign exchange differences		245,320	302,447
Cash and cash equivalents at the end of the year	17	146,277,375	212,371,231

BANK STATEMENT OF CASH FLOWS

	Note	2016 Ushs'000	2015 Restated* Ushs'000
Operating activities			
Profit before income tax		7,626,061	441,309
Adjustments:			
Depreciation	25	2,505,071	2,810,295
Amortisation of intangible assets	26	2,661,458	2,435,860
Unrealised foreign exchange gain		(336,224)	-
Provision on litigation		1,797,819	803,111
Impairment charge on loans and advances		2,830,954	5,668,591
Profit on disposal of property and equipment		(9,059)	(100,835)
Profit before changes in operating assets and liabilities		17,076,080	12,058,331
Decrease/(increase in cash reserve requirement		1,956,000	(3,350,000)
Decrease in deposits due to banking institutions		(389,156)	(998,110)
Increase in loans and advances		(76,717,028)	(28,586,117)
(Increase)/decrease in investment in government securities		(9,399,219)	24,074,205
Decrease/(increase) in other assets		1,425,290	(3,136,172)
(Decrease)/(increase) in customer deposits		(16,902,222)	52,226,468
Increase/(decrease) in BOU refinance loan		16,703	(62,500)
Increase in other liabilities		4,070,534	2,220,658
Income taxes paid	24	(2,756,366)	(2,790,221)
		(98,695,464)	39,598,211
Net cash flow used in/generated from operating activities		(81,619,384)	51,656,542
Investing activities			
Purchase of property and equipment	25	(4,710,717)	(3,207,134)
Proceeds from sale of property and equipment		54,038	129,980
Purchase of intangible assets	26	(216,377)	(1,056,275)
Net cash flows used in investing activities		(4,873,056)	(4,133,429)
Financing activities			
Increase in share capital	32	20,250,000	-
Net cash flows generated from financing activities		20,250,000	-
Cash and cash equivalents at start of year		212,325,157	164,499,597
Net (decrease)/increase in cash and cash equivalents		(66,242,440)	47,523,113
Net foreign exchange differences		151,200	302,447
Cash and cash equivalents at end of year	17	146,233,917	212,325,157

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

Plot 6 & 6A, Kampala Road P O Box 3072
Kampala

For the Companies Act of Uganda, 2012 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of comprehensive income in these financial statements.

The financial statements for the year ended 31 December 2016 have been approved for issue by the Board of Directors on 21 April 2017. Neither the Group's owners nor others have the power to amend the financial statements after issue.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except buildings which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

2.2 Basis of consolidation

The consolidated and bank financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2016. Orient Bank consolidates a subsidiary when it controls it. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Bank may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

Given the level of judgement required regarding consolidation of structured entities, these considerations are described further in the Critical accounting estimates and judgements in Note 4. Disclosures for investment in subsidiaries are provided in Note 20.

2.2.1 Changes in accounting policy and disclosures

New and amended standards and interpretations

Standards and amendments issued and were effective for 31 December 2016 year-end

The standards and interpretations that were issued and which are effective for annual periods beginning on or after 1 January 2016 are described below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual financial statements.

IFRS 14 Regulatory Deferral Accounts

This is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI.

The standard requires disclosure of the nature of, and risk associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendment to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting.

The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity).

The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and do not have any impact on the group as it does not have any bearer plants.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the group's financial statements.

Annual Improvements 2012-2014 Cycle IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a ➔

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.2.1 Changes in accounting policy and disclosures (continued)

Annual Improvements 2012-2014 Cycle (continued)

- continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively. These amendments do not have any impact on the group's financial statements.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively. These amendments do not have any impact on the group's financial statements.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. These amendments do not have any impact on the group's financial statements.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report).

The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively. These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be

presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the group.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full.

Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. This is not expected to have any impact on the group's financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial instrument

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of the classification and measurement, and impairment aspects of IFRS 9. The Group doesn't perform any hedge accounting and thus this aspect will not have impact on the financial statements. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future.

Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Bank expects that these will continue to be measured at amortised cost under IFRS 9. However, the Bank will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Bank expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Bank expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted.

IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors.

However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted ➔

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.2.1 Changes in accounting policy and disclosures (continued)

IFRS 16 Leases (continued)

- ☞ provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. This is not expected to have any impact on the Bank's financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. This is not expected to have any impact on the Bank's financial statements.

Investment Property (Amendments to IAS 40) Effective for annual periods beginning on or after 1 January 2018.

The amendments clarify when the group should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This is not expected to have any impact on the group's financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

Effective for annual periods beginning on or after 1 January 2018

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

Temporary exemption from IFRS 9

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption

permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. Predominance must be initially assessed at the annual reporting date that immediately precedes 1 April 2016 and before IFRS 9 is implemented. Also the evaluation of predominance can only be reassessed in rare cases. Entities applying the temporary exemption will be required to make additional disclosures.

The overlay approach

The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in IAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amounts between profit or loss and other comprehensive income (OCI) for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI.

This is not expected to have any impact on the group's financial statements.

2014-2016 cycle (issued in December 2016)

Following is a summary of the amendments from the 2014-2016 annual improvements cycle.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Deletion of short-term exemptions for first-time adopters

- Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose.
- The amendment is effective from 1 January 2018. IAS 28 Investments in Associates and Joint Ventures.

This is not expected to have an impact on the group's financial statements.

IAS 28 Investments in Associates and Joint Ventures

Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

- The amendments clarify that:

An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

- The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

This is not expected to have an impact on the group's financial statements.

IFRS 12 Disclosure of Interests in Other Entities.

Clarification of the scope of the disclosure requirements in IFRS 12

- The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.
- The amendments are effective from 1 January 2017 and must be applied retrospectively.

This is not expected to have an impact on the group's financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration Effective for annual periods beginning on or after 1 January 2018.

Key requirements

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Transition

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply ➞

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.2.1 Changes in accounting policy and disclosures (continued)

IAS 28 Investments in Associates and Joint Ventures (continued)

- the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation

Or

- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Early application of interpretation is permitted and must be disclosed.

First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

Impact

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. This is not expected to have an impact on the group's financial statements.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Uganda shillings and figures are stated in thousands of Uganda shillings.

(b) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is measured. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or

profit or loss are also recognised in OCI or profit or loss, respectively).

Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

2.4 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified 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 deposits from banks or deposits from 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.

2.5 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts when recording financial asset

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

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. The Group has not designated any financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the profit or loss.

(b) Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (aka the 'underlying').

b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

c) It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include Spot and forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

(c) Loans and receivables

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

(a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;

(b) those that the Bank upon initial recognition designates as available-for-sale; or

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method, less impairment. The effective interest rate (EIR) 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 amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction

(directly or through the use of an allowance account) for impairment or uncollectibility.

The financial assets under category are loans and advances to customers.

(d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors have the positive intention and ability to hold to maturity, other than:

(a) those that the Bank upon initial recognition designates as at fair value through profit or loss;

(b) those that the Bank designates as available-for-sale; and

(c) those that meet the definition of loans and receivables.

Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

2.5.1 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or as payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include Deposits due to other banks, Customer deposits, Refinance loans, and Other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings, and payables

After initial recognition, deposits due to other banks, Customer deposits, Refinance loans, and Other liabilities are subsequently measured at amortised cost. The interest bearing refinance loans use the EIR method to determine the amortised cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the profit or loss.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:



NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.5.1 Financial liabilities (continued)

Loans and borrowings, and payables (continued)



- **Level 1 financial instruments –**

Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the reporting date.

- **Level 2 financial instruments–**

Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.

- **Level 3 financial instruments –**

Those that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA).

Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non- collateralised financial instruments. The Bank estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit

spread on credit default swaps and traded debts on itself.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

2.5.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

2.6 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the 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.

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 that 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.

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 asset'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 profit or loss. 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 (that is, 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 currently exist.

(a) Assets carried at amortised cost

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability

of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related allowance 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. Impairment charges relating to loans and advances to banks and customers are recognised in loan impairment charges in profit or loss.

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 profit or loss. In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Bank is also required by the Ugandan Financial Institutions Act, 2004 to estimate losses on loans and advances as follows:

A specific allowance for impairment for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Financial Institutions (Credit Classification and Provisioning) Regulations, 2005, as follows:

- a) substandard assets with arrears period between 90 and 179 days – 20%;
- b) doubtful assets with arrears period between 181 days and 365 days – 50% and
- c) loss assets with arrears period over 365 days – 100%.

The excess of provisions as per Financial Institutions (Credit Classification and Provisioning) Regulations, 2005 over IFRS is accounted for in the credit risk reserve in the statement of changes in equity.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.



NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.9 Property and equipment

Property and equipment comprise mainly branches and offices and includes land. All equipment and land used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Buildings are measured at fair value and in the for the building, less accumulated depreciation and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Depreciation of assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	7%
Leasehold improvements	Shorter of useful lives and lease terms
Furniture, Fixtures, Strongroom & Safes	12.5%
Office Equipment	20.0%
Motor vehicles	25.0%
Computer Equipment, ATM, POS & SWIFT	33.3%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is derecognised. Detailed disclosures are provided in Note 24.

The bank assesses the fair value of the buildings at the end of each reporting period to determine the frequency of revaluation. If the difference between the fair value of the buildings and their respective carrying amounts is insignificant, the buildings will be revalued every five years.

2.10 Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;

- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic
- adequate technical, financial and other resources to complete the development and to use or
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

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 the expected useful lives. Software has a maximum expected useful life of 5 years.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

2.11 Impairment of non-financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

2.12 Employee benefits

(a) Pension obligations

The Bank operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Bank has a defined contribution scheme.

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.

For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised



NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.12 Employee benefits (continued)

- as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.13 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.14 Income tax

(a) Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Bank operates and generates taxable income. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred income tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity. The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Bank's intention to settle on a net basis.

2.15 Dividend payable

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

2.16 Share capital

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

2.17 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Leases are divided into finance leases and operating leases.

(a) The Bank as the lessee

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. Refer to note 25.

The total payments made under operating leases are charged to 'other operating expenses' on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

The leases entered into by the Bank are primarily operating leases.

2.18 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss 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.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points 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. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.19 Fee 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. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

2.20 Dividend income

Dividends are recognised in profit or loss when the Bank's right to receive payment is established.

2.21 Acceptances and letters of credit

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

NOTES TO THE FINANCIAL STATEMENTS

(continued)

3. FINANCIAL RISK MANAGEMENT

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which includes credit risk, liquidity risk and market risk.

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading

exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans. Credit risk is the single largest risk for the Bank's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

3.1.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Bank considers three components: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee) and are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the 'incurred loss model') rather than expected losses.

The Bank's internal ratings scale and mapping of external ratings as supplemented by the Bank's own assessment through the use of internal rating tools are as follows:

Normal	Items that are fully current and the full repayment of the contractual principal and interest amounts are expected.
Watch	Items for which the borrower is experiencing difficulties. Ultimate loss is not expected but could occur if adverse conditions persist.
Substandard	Items that show underlying well defined weaknesses that could lead to probable loss if not corrected. The risk that these items may be impaired is probable and the Bank relies to a large extent on the available security.
Doubtful	Items that are considered to be impaired, but are not yet considered final losses because of pending factors, which may strengthen the quality of the items.
Loss	Items that are considered to be uncollectible and where the realization of collateral and institution of legal proceedings have been unsuccessful. These items are considered of such little value that they should no longer be included in the net assets of the Bank.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries.

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 geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers 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.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for loans and advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument.

The table below shows the collateral coverage for secured loans as at year-end. The type of collateral held includes land titles and buildings mainly.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.1.2 Risk limit control and mitigation policies (continued)

As at 31 December 2016	Total loan portfolio Ushs '000	Netting off agreements (cash secured) Ushs '000	Collateral less than 100% Ushs '000	Collateral over 100% Ushs '000
Gross loans and advances	254,074,802	15,672,437	60,499,769	177,902,596
Total	254,074,802	15,672,437	60,499,769	177,902,596

As at 31 December 2015	Total loan portfolio Ushs '000	Netting off agreements (cash secured) Ushs '000	Collateral less than 100% Ushs '000	Collateral over 100% Ushs '000
Gross loans and advances	181,730,066	24,582,226	27,392,630	129,755,210
Total	181,730,066	24,582,226	27,392,630	129,755,210

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

(b) Lending limits (for derivatives and loan books)

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term.

The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties. Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectati

on of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

(c) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit 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 loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

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.

3.1.3 Impairment and provisioning policies

The internal and external rating systems described in Note 3.1.1 focus on expected credit losses – that is,

taking into account the risk of future events giving rise to losses.

In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment allowance included in the amounts in the statement of financial position at year-end is derived from each of the four internal rating grades. However, the largest component of the impairment allowance comes from the loss grade. The table below shows the Bank's exposure on items like financial guarantees, loan commitments and other credit related obligations and the associated impairment allowance for each of the Bank's internal rating categories.

Bank's rating

	2016		2015	
	Credit risk exposure	% of impairment provision held per grade	Credit risk exposure	Impairment allowance
1. Normal	91.46%	0.0%	86.88%	0.0%
2. Watch	7.01%	0.0%	10.03%	0.0%
3. Substandard	0.15%	3.0%	1.64%	27.1%
4. Doubtful	0.31%	16.0%	0.99%	38.0%
5. Loss	1.07%	81.0%	0.46%	34.9%
	100.00%	100.00%	100.00%	100.0%

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

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

- 98.47% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2015: 96.91%);
- 91.46% of the loans and advances portfolio are considered to be neither past due nor impaired (2015: 86.88%);

All credit exposures arise in Uganda. The following table breaks down the Bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), categorised by the industry sectors of the Bank's counterparties.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.1.4 Concentration of risks of financial assets with credit risk exposure

Group

At 31 December 2016

	Financial institutions Ushs '000	Manufacturing Ushs '000	Real estate Ushs '000	Wholesale and retail trade Ushs '000	Public sector Ushs '000	Others Ushs '000	Total Ushs '000
Balances with the Central Bank	7,260,056	-	-	-	-	-	7,260,056
Deposits and balances due from banking institutions	90,078,616	-	-	-	-	-	90,078,616
Loans to Retail customers:							
– Overdrafts	-	180	1,529	423,729	598,293	856,338	1,880,069
– Term loans	-	-	-	227,463	-	39,777,245	40,004,708
Corporate	-	20,596,207	53,339,805	18,735,711	1,715,792	45,185,731	139,573,246
SME	-	2,517,940	19,505,327	39,317,128	424,115	10,852,268	72,616,778
Financial assets							
– Held to maturity	99,870,917	-	-	-	-	-	99,870,917
Other assets	-	-	-	-	-	3,878,917	3,878,917
	197,209,589	23,114,327	72,846,661	58,704,031	2,738,200	100,550,499	455,163,307

Credit risk exposures relating to off-balance sheet items are as follows:

LCs, Guarantees and performance bonds	-	12,026,813	57,947,153	14,097,855	201,415	21,297,579	105,570,815
Loan commitments and other credit related obligations	-	795,908	1,669,893	2,398,303	-	12,821,361	17,685,465
At 31 December 2016	-	12,822,721	59,617,046	16,496,158	201,415	34,118,940	123,256,280

At 31 December 2015

	Financial institutions Ushs '000	Manufacturing Ushs '000	Real estate Ushs '000	Whole-sale and retail trade Ushs '000	Public sector Ushs '000	Others Ushs '000	Total Ushs '000
Balances with the Central Bank	15,519,306	-	-	-	-	-	15,519,306
Deposits and balances due from banking institutions	141,003,197	-	-	-	-	-	141,003,197
Loans to Retail customers:							-
– Overdrafts	-	30,764	90,163	1,188,795	-	2,051,763	3,361,485
– Term loans	-	22,209	3,495,180	1,819,351	-	24,913,951	30,250,690
Corporate	-	11,449,276	20,247,526	29,796,639	-	42,516,210	104,009,651
HNWI	-	1,523,899	7,700,852	19,275,067	-	15,608,422	44,108,240
Financial assets							-
– Held to maturity	98,362,345	-	-	-	-	-	98,362,345
Other assets	-	-	-	-	-	4,373,696	4,373,696
	254,884,848	13,026,148	31,533,721	52,079,852	-	89,464,041	440,988,610

Credit risk exposures relating to off-balance sheet items are as follows:

LCs, Guarantees and performance bonds	11,090,919	35,655,523	20,651,906	57,100	28,096,202	95,551,651
Loan commitments and other credit related obligations	741,330	1,519,318	4,692,244	-	17,641,324	24,594,216
At 31 December 2015	11,832,249	37,174,841	25,344,150	57,100	45,737,526	120,145,867

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)
3.1.4 Concentration of risks of financial assets with credit risk exposure (continued)

Bank

At 31 December 2016

	Financial institutions Ushs '000	Manufacturing Ushs '000	Real estate Ushs '000	Whole-sale and retail trade Ushs '000	Public sector Ushs '000	Others Ushs '000	Total Ushs '000
Balances with the Central Bank	7,260,056	-	-	-	-	-	7,260,056
Deposits and balances due from banking institutions	90,035,159	-	-	-	-	-	90,035,159
Loans to Retail customers:	-	-	-	-	-	-	-
– Overdrafts	-	180	1,529	423,729	598,293	856,338	1,880,069
– Term loans	-	-	-	227,463	-	39,777,245	40,004,708
Corporate	-	20,596,207	53,339,805	18,735,711	1,715,792	45,185,731	139,573,246
SME	-	2,517,940	19,505,327	39,317,128	424,115	10,852,268	72,616,778
Financial assets	-	-	-	-	-	-	-
– Held to maturity	99,870,917	-	-	-	-	-	99,870,917
Other assets	-	-	-	-	-	3,878,919	3,878,919
	197,166,132	23,114,327	72,846,661	58,704,031	2,738,200	100,550,501	455,119,852

Credit risk exposures relating to off-balance sheet items are as follows:

LCs, Guarantees and performance bonds	-	12,026,813	57,947,153	14,097,855	201,415	21,297,579	105,570,815
Loan commitments and other credit related obligations	-	795,908	1,669,893	2,398,303	-	12,821,361	17,685,465
At 31 December 2016	-	12,822,721	59,617,046	16,496,158	201,415	34,118,940	123,256,280

At 31 December 2015

	Financial institutions Ushs '000	Manufacturing Ushs '000	Real estate Ushs '000	Whole-sale and retail trade Ushs '000	Public sector Ushs '000	Others Ushs '000	Total Ushs '000
Balances with the Central Bank	15,519,306	-	-	-	-	-	15,519,306
Deposits and balances due from banking institutions	140,957,123	-	-	-	-	-	140,957,123
Loans to Retail customers:							-
– Overdrafts	-	30,764	90,163	1,188,795	-	2,051,763	3,361,485
– Term loans	-	22,209	3,495,180	1,819,351	-	24,913,951	30,250,690
Corporate	-	11,449,276	20,247,526	29,796,639	-	42,516,210	104,009,651
HNWI	-	1,523,899	7,700,852	19,275,067	-	15,608,422	44,108,240
Financial assets							-
– Held to maturity	98,362,345	-	-	-	-	-	98,362,345
Other assets	-	-	-	-	-	4,373,695	4,373,695
	254,838,774	13,026,148	31,533,721	52,079,852	-	89,464,040	440,942,535

Credit risk exposures relating to off-balance sheet items are as follows:

LCs, Guarantees and performance bonds	-	11,090,919	35,655,523	20,651,906	57,100	28,096,202	95,551,651
Loan commitments and other credit related obligations	-	741,330	1,519,318	4,692,244	-	17,641,324	24,594,216
At 31 December 2015	-	11,832,249	37,174,841	25,344,150	57,100	45,737,526	120,145,867

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.1.5 Loans and advances

Loans and advances to customers are summarised as follows:

	2016 Ushs '000	2015 Ushs '000
Neither past due nor impaired	232,369,619	157,888,361
Past due but not impaired	17,812,218	18,223,495
Individually impaired	3,892,965	5,618,210
Gross	254,074,802	181,730,066
Less: allowance for impairment	(3,318,974)	(4,709,112)
Net	250,755,828	177,020,954

Loans and advances are summarised as per risk rating as follows:

	Normal Ushs '000	Watch Ushs '000	Sub standard Ushs '000	Doubtful Ushs '000	Loss Ushs '000	Total Ushs '000
31 December 2016						
Neither past due nor impaired	232,369,619	-	-	-	-	232,369,619
Past due but not impaired	-	17,812,218	-	-	-	17,812,218
Individually impaired	-	-	388,173	797,550	2,707,241	3,892,965
Gross	232,369,619	17,812,218	388,173	797,550	2,707,241	254,074,802
Less: allowance for impairment (Refer to note 34)	(3,178,948)	(178,122)	(74,839)	(460,754)	(2,408,748)	(6,301,411)
Net	229,190,671	17,634,096	313,334	336,796	298,493	247,773,391
31 December 2015						
Neither past due nor impaired	157,888,360	-	-	-	-	157,888,360
Past due but not impaired	-	18,223,495	-	-	-	18,223,495
Individually impaired	-	-	2,982,472	1,804,251	831,487	5,618,211
Gross	157,888,360	18,223,495	2,982,472	1,804,251	831,487	181,730,066
Less: allowance for impairment (Refer to note 34)	(2,579,088)	(182,235)	(588,009)	(825,911)	(758,966)	(4,934,210)
Net	155,309,272	18,041,260	2,394,463	978,340	72,521	176,795,856

The impairment allowances shown in the table above are as per Bank of Uganda guidelines.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired (normal category) can be assessed by reference to the internal rating system adopted by the Bank.

	Overdrafts Ushs '000	Term loans Ushs '000	Corporate Ushs '000	HNWI Ushs '000	Public sector Ushs '000	Total Ushs '000
31 December 2016						
Neither past due nor impaired	1,398,191	38,629,266	136,444,787	55,897,374	-	232,369,619
Total	1,398,191	38,629,266	136,444,787	55,897,374	-	232,369,619
31 December 2015						
Neither past due nor impaired	2,044,072	26,887,428	92,296,002	36,660,860	-	157,888,361
Total	2,044,072	26,887,428	92,296,002	36,660,860	-	157,888,361

For the aging analysis of the loans and advances neither past due nor impaired refer to note 3.1.5 b.

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Overdrafts Ushs '000	Term loans Ushs '000	Corporate Ushs '000	HNWI Ushs '000	Public sector Ushs '000	Total Ushs '000
31 December 2016						
Past due but not impaired	70,439	868,973	2,597,151	14,275,655	-	17,812,218
Total	70,439	868,973	2,597,151	14,275,655	-	17,812,218
31 December 2015						
Past due but not impaired	1,897	1,128,964	11,865,648	5,226,986	-	18,223,495
Total	1,897	1,128,964	11,865,648	5,226,986	-	18,223,495

	2016 Ushs'000	2015 Ushs '000
Less than 30 days	6,046,086	3,291,767
More than 30 days	11,766,132	14,931,728
Total	17,812,218	18,223,495

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.1.5 Loans and advances (continued)

(c) Loans and advances individually impaired

(i) Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held were Ushs 3,588,442 (2015: 5,618,211).

The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

	Overdrafts Ushs '000	Term loans Ushs '000	Corporate Ushs '000	SME Ushs '000	Public sector Ushs '000	Total Ushs '000
31 December 2016						
Individually impaired	411,439	506,469	531,309	2,443,748	-	3,892,965
Total	411,439	506,469	531,309	2,443,748	-	3,892,965
31 December 2015						
Individually impaired	1,048,142	2,234,298	115,376	2,220,394	-	5,618,210
Total	1,048,142	2,234,298	115,376	2,220,394	-	5,618,210

The following factors are considered to check whether the loans and advances are impaired:

- Significant financial difficulty of the issuer or obligor;
 - Breach of contract, such as a default or delinquency in interest or principal payments; the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that would not otherwise be considered;
 - It becoming probable that the borrower will enter bankruptcy or other financial reorganisation; The disappearance of an active market for that asset because of financial difficulties (but not simply because the asset is no longer publicly traded); or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial
- assets since initial recognition, although the decrease cannot yet be identified with the individual assets in the group, including:
Adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an
 - increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
 - National or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the
 - unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Bank Treasury and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale financial assets.

3.2.1 Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed risk management policies and for day-to-day implementation of those policies.

(a) Value at risk

The Bank applies a 'value at risk' (VAR) methodology to its trading and non-trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Bank, which are monitored on a daily basis by Bank Treasury. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis (Note 3.2.3). VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It

also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Bank's assessment of past movements is based on data for the past five years. The Bank applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits, together with a Bank-wide VAR, is reviewed daily by Bank Treasury. The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Board of Directors.

(b) Stress tests

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

3.2.2 Foreign exchange 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 aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Group and Bank

At 31 December 2016

	USD Ushs '000	EUR Ushs '000	GBP Ushs '000	Other Ushs '000	Total Ushs '000
Assets					
Cash and balances with the Central Bank	23,553,069	903,067	1,825,038	375,894	26,657,068
Deposits and balances due from banking institutions	75,439,782	1,288,676	2,941,944	354,895	80,025,297
Derivative financial instruments	376,700	-	-	-	376,700
Investment securities					
– Held-to-maturity	-	-	-	-	-
Investment in subsidiary	-	-	-	-	-
Loans and advances to customers	149,257,599	305,167	-	-	149,562,766
Other assets	517,422	86,919	4,836	-	609,177
Total financial assets	249,144,572	2,583,829	4,771,818	730,789	257,231,008
Liabilities					
Deposits from banks	3,613,008	-	-	-	3,613,008
Derivative financial instruments	40,476	-	-	-	40,476
Deposits from customers	209,389,584	2,495,165	4,593,380	2,416	216,480,545
Refinance loans	-	-	-	-	-
Other liabilities	10,372,866	7,825	4,720	16	10,385,427
Total financial liabilities	223,415,934	2,502,990	4,598,100	2,432	230,519,456
Net on-balance sheet financial position	25,728,638	80,839	173,718	728,357	26,711,552
Credit commitments	11,337,510	-	-	-	11,337,510

At 31 December 2015

Assets					
Cash and balances with the Central Bank	22,841,576	809,703	1,119,162	51,367	24,821,808
Deposits and balances due from banking institutions	127,962,801	6,398,253	3,580,398	1,014,712	138,956,164
Investment securities					-
– Held-to-maturity	-	-	-	-	-
Investment in subsidiary	-	-	-	-	-
Loans and advances to customers	105,291,988	805	-	-	105,292,793
Other assets	721,630	81,623	2,623	-	805,876
Total financial assets	256,817,995	7,290,384	4,702,183	1,066,079	269,876,641
Liabilities					
Deposits from banks	-	-	-	-	-
Deposits from customers	251,416,338	6,938,908	4,922,422	1,073	263,278,741
Refinance loans	-	-	-	-	-
Other liabilities	5,039,934	20,102	5,311	20	5,065,367
	256,456,272	6,959,010	4,927,733	1,093	268,344,108
Total financial liabilities					
Net on-balance sheet financial position	361,723	331,374	(225,550)	1,064,986	1,532,533
Credit commitments	17,477,157	-	-	-	17,477,157

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

Below is the impact of a 10% change in foreign exchange rates on the profit before tax and equity:

(i) Profit before tax

	USD Ushs '000	EUR Ushs '000	GBP Ushs '000
At 31 December 2016			
(10%)	53,461	(8,084)	(226,883)
10%	(53,461)	8,084	226,883
At 31 December 2015			
(10%)	(36,172)	(33,137)	22,555
10%	36,172	33,137	(22,555)

(ii) Equity

	USD Ushs '000	EUR Ushs '000	GBP Ushs '000
At 31 December 2016			
(10%)	37,422	(5,659)	(158,818)
10%	(37,422)	5,659	158,818
At 31 December 2015			
(10%)	(25,321)	(23,196)	15,788
10%	25,321	23,196	(15,789)

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. 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. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by Bank Treasury.

The tables below summarise the Bank's non-trading book fair value exposure to interest rate risks. It includes the Bank's financial instruments at carrying

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.2.3 Interest rate risk (continued)

Group		0 to 3 Months Ushs '000	4 to 6 Months Ushs '000	7 to 12 Months Ushs '000	Over 1 year Ushs '000	Over 5 years Ushs '000	Non Interest bearing Ushs '000	Total Ushs '000
As at 31 December 2016								
Assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	68,282,059	68,282,059
Deposits and balances due from banking institutions	60,859,126	10,952,890	18,266,600	-	-	-	-	90,078,616
Derivative financial instruments	-	-	-	-	-	-	376,700	376,700
Investment securities	-	-	-	-	-	-	-	-
– Held-to-maturity	19,676,926	41,221,925	5,292,217	12,665,611	1,014,238	-	-	99,870,917
Loans and advances to customers	34,263,815	23,518,177	5,527,227	182,209,171	5,237,438	-	-	250,755,828
Other assets	-	-	-	-	-	-	3,660,027	3,660,027
Total financial assets	114,799,867	75,692,992	49,086,044	194,874,782	6,251,676	72,318,786	513,024,147	513,024,147
Other assets	-	-	-	-	-	-	2,745,136	2,745,136
Current income tax recoverable	-	-	-	-	-	-	196,846	196,846
Property and equipment	-	-	-	-	-	-	11,541,193	11,541,193
Operating lease prepayments	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	3,918,290	3,918,290
Freehold land	-	-	-	-	-	-	-	-
Deferred income tax asset	-	-	-	-	-	-	22,791,061	22,791,061
Total non-financial assets	-	-	-	-	-	-	41,192,526	41,192,526
Total assets	114,799,867	75,692,992	49,086,044	194,874,782	6,251,676	113,511,312	554,216,672	554,216,672
Liabilities								
Deposits from banks	3,613,008	-	-	-	-	-	40,476	3,613,008
Derivative financial instruments	-	-	-	-	-	-	184,234,749	40,476
Deposits from customers	169,950,256	14,707,899	51,309,389	3,045,950	-	-	-	423,248,243
Refinance loans	-	-	-	120,870	-	-	-	120,870
Other liabilities	-	-	-	-	-	-	17,071,791	17,071,791
Total financial liabilities	173,563,264	14,707,899	51,309,389	3,166,820	-	201,347,016	2,149,396	444,094,388
Other liabilities	-	-	-	-	-	-	879	2,149,396
Deferred income tax liability	-	-	-	-	-	-	2,150,275	2,150,275
Total non-financial liabilities	-	-	-	-	-	-	203,497,291	2,150,275
Total liabilities	173,563,264	14,707,899	51,309,389	3,166,820	-	-	(129,028,229)	446,244,663
Interest sensitivity gap	(58,763,397)	60,985,092	(2,223,345)	191,707,964	6,251,676	6,251,676	68,929,759	68,929,759

Group As at 31 December 2016		0 to 3 Months Ushs '000	4 to 6 Months Ushs '000	7 to 12 Months Ushs '000	Over 1 year Ushs '000	Over 5 years Ushs '000	Non Interest bearing Ushs '000	Total Ushs '000
Assets								
Cash and balances with the Central Bank		-	-	-	-	-	77,516,687	77,516,687
Deposits and balances due from banking institutions		129,845,716	11,157,481	-	-	-	-	141,003,197
Investment securities		-	-	-	-	-	-	-
– Held-to-maturity		25,956,217	18,296,051	20,516,393	32,561,455	1,032,230	-	98,362,346
Loans and advances to customers		31,974,918	11,204,197	34,319,957	93,863,702	5,658,181	-	177,020,955
Other assets							4,218,270	4,218,270
Total financial assets		187,776,851	40,657,729	54,836,350	126,425,157	6,690,411	81,734,957	498,121,455
Other assets		-	-	-	-	-	3,586,372	3,586,372
Current income tax recoverable		-	-	-	-	-	349,942	349,942
Property and equipment		-	-	-	-	-	11,629,949	11,629,949
Operating lease prepayments		-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	3,051,650	3,051,650
Freehold land		-	-	-	-	-	-	-
Deferred income tax asset		-	-	-	-	-	21,944,698	21,944,698
Total non-financial assets		-	-	-	-	-	40,562,612	40,562,612
Total assets		187,776,851	40,657,729	54,836,350	126,425,157	6,690,411	122,297,568	538,684,0667
Liabilities								
Deposits from banks		4,002,164						4,002,164
Deposits from customers		150,012,906	27,149,136	47,114,621	5,794,871	5,917	210,295,192	440,372,643
Refinance loans		-	-	104,167	-	-	-	104,167
Other liabilities		-	-	-	-	-	12,079,641	12,079,641
Total financial liabilities		154,015,070	27,149,136	47,218,788	5,794,871	5,917	222,374,833	456,558,615
Other liabilities							1,250,476	1,250,476
Total non-financial liabilities		-	-	-	-	-	1,250,476	1,250,476
Total liabilities		154,015,070	27,149,136	47,218,788	5,794,871	5,917	223,625,309	457,809,091
Interest sensitivity gap		33,761,781	13,508,593	7,617,562	120,630,287	6,684,494	(140,639,875)	41,562,841

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.2.3 Interest rate risk (continued)

Bank	As at 31 December 2016	0 to 3 Months Ushs '000	4 to 6 Months Ushs '000	7 to 12 Months Ushs '000	Over 1 year Ushs '000	Over 5 years Ushs '000	Non Interest bearing Ushs '000	Total Ushs '000
Assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	68,282,059	68,282,059
Deposits and balances due from banking institutions	60,815,669	10,952,890	-	18,266,600	-	-	-	90,035,159
Derivative financial instruments	-	-	-	-	-	-	376,700	376,700
Investment securities	-	-	-	-	-	-	-	-
– Held-to-maturity	19,676,926	41,221,925	-	25,292,217	12,665,611	1,014,238	-	99,870,917
Loans and advances to customers	34,263,815	23,518,177	-	5,527,227	182,209,171	5,237,438	-	250,755,828
Other assets	-	-	-	-	-	-	3,524,303	3,524,303
Total financial assets	114,756,410	75,692,992	49,086,044	194,874,782	6,251,676	6,251,676	72,183,062	512,844,966
Investment in subsidiary	-	-	-	-	-	-	80,000	80,000
Other assets	-	-	-	-	-	-	2,745,136	2,745,136
Current income tax recoverable	-	-	-	-	-	-	204,305	204,305
Property and equipment	-	-	-	-	-	-	11,538,262	11,538,262
Operating lease prepayments	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	3,918,290	3,918,290
Freehold Land	-	-	-	-	-	-	-	-
Deferred income tax asset	-	-	-	-	-	-	22,791,061	22,791,061
Total non-financial assets	-	-	-	-	-	-	41,277,054	41,277,054
Total assets	114,756,410	75,692,992	49,086,044	194,874,782	6,251,676	6,251,676	113,460,116	554,122,020
Liabilities								
Deposits from banks	3,613,008	-	-	-	-	-	-	3,613,008
Derivative financial instruments	-	-	-	-	-	-	40,476	40,476
Deposits from customers	169,950,256	14,707,899	51,309,389	3,045,950	184,611,046	-	-	423,624,540
Refinance loans	-	-	-	120,870	-	-	-	120,870
Other liabilities	-	-	-	-	-	-	16,997,627	16,997,627
Total financial liabilities	173,563,264	14,707,899	51,309,389	3,166,820	-	-	201,649,149	444,396,521
Other liabilities	-	-	-	-	-	-	2,149,396	2,149,396
Total non-financial liabilities	-	-	-	-	-	-	2,149,396	2,149,396
Total liabilities	173,563,264	14,707,899	51,309,389	3,166,820	-	-	203,798,545	446,545,917
Interest sensitivity gap	(58,806,854)	60,985,092	(2,223,345)	191,707,964	6,251,676	6,251,676	(129,466,086)	68,448,445

Bank As at 31 December 2015		0 to 3 Months Ushs '000	4 to 6 Months Ushs '000	7 to 12 Months Ushs '000	Over 1 year Ushs '000	Over 5 years Ushs '000	Non Interest bearing Ushs '000	Total Ushs '000
Assets								
Cash and balances with the Central Bank		-	-	-	-	-	77,516,687	77,516,687
Deposits and balances due from banking institutions		129,799,642	11,157,481	-	-	-	-	140,957,123
Investment securities		-	-	-	-	-	-	-
– Held-to-maturity		25,956,217	18,296,051	20,516,393	32,561,455	1,032,230	-	98,362,346
Loans and advances to customers		31,974,918	11,204,197	34,319,957	93,863,702	5,658,181	-	177,020,955
Other assets		-	-	-	-	-	4,107,592	4,107,592
Total financial assets		187,730,777	40,657,729	54,836,350	126,425,157	6,690,411	81,624,279	497,964,703
Investment in subsidiary		-	-	-	-	-	80,000	80,000
Other assets		-	-	-	-	-	3,586,372	3,586,372
Current income tax recoverable		-	-	-	-	-	354,615	354,615
Property and equipment		-	-	-	-	-	11,624,362	11,624,362
Operating lease prepayments		-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	3,051,650	3,051,650
Freehold Land		-	-	-	-	-	-	-
Deferred income tax asset		-	-	-	-	-	21,945,634	21,945,634
Total non-financial assets		-	-	-	-	-	40,642,633	40,642,633
Total assets		187,730,777	40,657,729	54,836,350	126,425,157	6,690,411	122,266,912	538,607,336

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.2.3 Interest rate risk (continued)

Bank As at 31 December 2015	0 to 3 Months Ushs '000	4 to 6 Months Ushs '000	7 to 12 Months Ushs '000	Over 1 year Ushs '000	Over 5 years Ushs '000	Non Interest bearing Ushs '000	Total Ushs '000
Liabilities							
Deposits from banks	4,002,164						4,002,164
Deposits from customers	155,813,693	27,149,136	47,114,621	-	-	210,449,311	440,526,762
Refinance loans	-	-	104,167	-	-	-	104,167
Other liabilities	-	-	-	-	-	12,028,193	12,028,193
Total financial liabilities	159,815,857	27,149,136	47,218,788	-	-	222,477,504	456,661,286
Other liabilities						1,250,476	1,250,476
Total non-financial liabilities	-	-	-	-	-	1,250,476	1,250,476
Total liabilities	159,815,857	27,149,136	47,218,788	-	-	223,727,981	457,911,762
Interest sensitivity gap	27,914,920	13,508,593	7,617,562	126,425,157	6,690,411	(140,853,255)	41,303,418

Below is the impact of a 10% change in interest rates on the profit before tax and equity:

	Profit before tax Ushs '000	Equity Ushs '000
At 31 December 2016		
(10%)	(3,245,983)	(2,272,188)
10%	3,245,983	2,272,188
At 31 December 2015		
(10%)	(2,299,426)	(1,609,598)
10%	2,299,426	1,609,598

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 3.3.3).

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by a separate team in Bank Treasury to maintain a wide diversification by currency, provider, product and term.

3.3.3 Financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the liquidity risk based on a different basis (see Note 3.3.1 for details), not resulting in a significantly different analysis.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.3.3 Financial liabilities and assets held for managing liquidity risk (continued)

Group	0 to 3 months Ushs '000	4 to 6 months Ushs '000	7 to 12 months Ushs '000	Over 1 year Ushs '000	Over 5 years Ushs '000	Total Ushs '000
As at 31 December 2016						
Assets						
Cash and balances with the Central Bank	68,282,059	-	-	-	-	68,282,059
Deposits and balances due from banking institutions	78,921,135	11,157,481	-	-	-	90,078,616
Derivative financial instruments	376,700	-	-	-	-	376,700
– Held-to-maturity	19,676,926	41,221,925	25,292,217	12,546,921	1,166,373	99,904,362
Loans and advances to customers	34,263,815	23,518,177	5,527,227	224,064,975	6,494,423	293,868,617
Other assets	3,660,027	-	-	-	-	3,660,027
Total financial assets	205,180,662	75,897,583	30,819,444	236,611,896	7,660,796	556,170,381
Liabilities						
Deposits from banks	3,613,008	-	-	-	-	3,613,008
Derivative financial instruments	40,476	-	-	-	-	40,476
Deposits from customers	354,185,005	14,707,899	51,309,389	3,748,041	-	423,950,334
Refinance loans	-	-	-	126,914	-	126,914
Other liabilities	17,071,791	-	-	-	-	17,071,791
Total financial liabilities	374,910,280	14,707,899	51,309,389	3,874,955	-	444,802,523
On-balance sheet liquidity gap	(169,729,618)	61,189,684	(20,489,945)	232,736,941	7,660,796	111,367,858
Off-balance sheet items						
Loan commitments	3,495,736	1,864,045	12,325,684	-	-	17,685,465
Guarantees	7,015,354	3,631,269	25,402,483	13,879,924	-	49,929,030
Performance bonds	1,039,547	187,580	1,556,401	-	-	2,783,527
Letters of credit	45,098,400	3,284,731	4,138,903	-	-	52,522,033
Total off-balancesheet items	56,649,036	8,967,625	43,423,470	13,879,924	-	122,920,055
Net mismatch	(226,378,654)	52,222,059	(63,913,416)	218,857,017	7,660,796	(11,552,197)

Group	0 to 3 months Ushs '000	4 to 6 months Ushs '000	7 to 12 months Ushs '000	Over 1 year Ushs '000	Over 5 years Ushs '000	Total Ushs '000
As at 31 December 2015						
Assets						
Cash and balances with the Central Bank	77,516,687	-	-	-	-	77,516,687
Deposits and balances due from banking institutions	129,845,716	11,157,481	-	-	-	141,003,197
Investment securities						-
– Held-to-maturity	25,956,217	18,296,051	24,691,516	32,644,281	1,187,065	102,775,130
Loans and advances to customers	31,974,918	11,204,197	34,319,957	118,268,264	7,129,308	202,896,644
Other assets	4,218,270	-	-	-	-	4,218,270
Total financial assets	269,511,808	40,657,729	59,011,473	150,912,545	8,316,373	528,409,928
Liabilities						
Deposits from banks	4,002,164	-	-	-	-	4,002,164
Deposits from customers	360,462,217	27,149,136	47,114,621	6,664,101	5,917	441,395,992
Refinance loans	-	-	104,167	-	-	104,167
Other liabilities	12,079,641	-	-	-	-	12,079,640
Total financial liabilities	376,544,022	27,149,136	47,218,788	6,664,101	5,917	457,581,963
On-balance sheet liquidity gap	(107,032,214)	13,508,593	11,792,685	144,248,444	8,310,456	70,827,965
Off-balance sheet items						
Loan commitments	3,832,902	2,726,419	18,034,895	-	-	24,594,216
Guarantees	19,522,764	7,166,370	12,573,513	5,912,693	-	45,175,340
Performance bonds	1,974,967	245,405	316,920	-	-	2,537,290
Letters of credit	38,615,395	4,989,559	4,234,065	-	-	47,839,019
Total off-balancesheet items	63,946,028	15,127,753	35,159,393	5,912,693	-	120,145,865
Net mismatch	(170,978,242)	(1,619,160)	(23,366,708)	138,335,751	8,310,456	(49,317,900)

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.3.3 Financial liabilities and assets held for managing liquidity risk (continued)

Bank	0 to 3 months Ushs '000	4 to 6 months Ushs '000	7 to 12 months Ushs '000	Over 1 year Ushs '000	Over 5 years Ushs '000	Total Ushs '000
As at 31 December 2016						
Assets						
Cash and balances with the Central Bank	68,282,059	-	-	-	-	68,282,059
Deposits and balances due from banking institutions	78,877,678	11,157,481	-	-	-	90,035,159
Derivative financial instruments	376,700	-	-	-	-	376,700
– Held-to-maturity	19,676,926	41,221,925	25,292,217	12,546,921	1,166,373	99,904,362
Loans and advances to customers	34,263,815	23,518,177	5,527,227	224,064,975	6,494,423	293,868,617
Other assets	3,524,303	-	-	-	-	3,524,303
Total financial assets	205,001,481	75,897,582	30,819,444	236,611,895	7,660,796	555,991,200
Liabilities						
Deposits from banks	3,613,008	-	-	-	-	3,613,008
Derivative financial instruments	40,476	-	-	-	-	40,476
Deposits from customers	354,185,005	14,707,899	51,309,389	3,748,041	-	423,950,334
Refinance loans	-	-	-	126,914	-	126,913
Other liabilities	16,997,627	-	-	-	-	16,997,626
Total financial liabilities	374,836,115	14,707,899	51,309,389	3,874,954	-	444,728,357
On-balance sheet liquidity gap	(169,834,634)	61,189,683	(20,489,945)	232,736,941	7,660,796	111,262,843
Off-balance sheet items						
Loan commitments	3,495,736	1,864,045	12,325,684	-	-	17,685,465
Guarantees	7,015,354	3,631,269	25,402,483	13,879,924	-	49,929,030
Performance bonds	1,039,547	187,580	1,556,401	-	-	2,783,527
Letters of credit	45,098,400	3,284,731	4,138,903	-	-	52,522,033
Total off-balance sheet items	56,649,036	8,967,625	43,423,470	13,879,924	-	122,920,055
Net mismatch	(226,483,670)	52,222,058	(63,913,416)	218,857,017	7,660,796	(11,657,212)

Bank	0 to 3 months Ushs '000	4 to 6 months Ushs '000	7 to 12 months Ushs '000	Over 1 year Ushs '000	Over 5 years Ushs '000	Total Ushs '000
As at 31 December 2015						
Assets						
Cash and balances with the Central Bank	77,516,687	-	-	-	-	77,516,687
Deposits and balances due from banking institutions	129,799,642	11,157,481	-	-	-	140,957,123
Investment securities	-	-	-	-	-	-
– Held-to-maturity	25,956,217	18,296,051	24,691,516	32,644,281	1,187,065	102,775,130
Loans and advances to customers	31,974,918	11,204,197	34,319,957	118,268,264	7,129,308	202,896,644
Other assets	4,107,592	-	-	-	-	4,107,592
Total financial assets	269,355,056	40,657,729	59,011,473	150,912,545	8,316,373	528,253,176
Liabilities						
Deposits from banks	4,002,164	-	-	-	-	4,002,164
Deposits from customers	360,462,217	27,149,136	52,915,409	-	-	440,526,762
Refinance loans	-	-	104,167	-	-	104,167
Other liabilities	12,028,193	-	-	-	-	12,028,193
Total financial liabilities	376,492,574	27,149,136	53,019,576	-	-	456,661,286
On-balance sheet liquidity gap	(107,137,518)	13,508,593	5,991,897	150,912,545	8,316,373	71,591,890
Off-balance sheet items						
Loan commitments	3,832,902	2,726,419	18,034,895	-	-	24,594,216
Guarantees	19,522,764	7,166,370	12,573,513	5,912,693	-	45,175,340
Performance bonds	1,974,967	245,405	316,920	-	-	2,537,290
Letters of credit	38,615,395	4,989,559	4,234,065	-	-	47,839,019
Total off-balancesheet items	63,946,028	15,127,753	35,159,393	5,912,693	-	120,145,867
Net mismatch	171,083,546)	(1,619,160)	(29,167,496)	144,999,852	8,316,373	(48,553,977)

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

3.3.5 Current and Non-Current Assets and Liabilities

The table below shows the current and non-current assets and liabilities as at 31 December 2015 and 2016 respectively.

Group	Statement of financial position Ushs '000	Less than 12 months after the reporting date Ushs '000	More than 12 months after the reporting date Ushs '000	Total Ushs '000
As at 31 December 2016				
Assets				
Cash and balances with Central Bank	68,282,059	68,282,059	-	68,282,059
Deposits and balances due from banking institutions	90,078,616	90,078,616	-	90,078,616
Derivative financial instruments	376,700	376,700	-	376,700
Government securities – Held-to-maturity	99,870,917	86,191,069	13,679,848	99,870,917
Loans and advances to customers	250,755,828	20,196,430	230,559,398	250,755,828
Other assets	6,405,163	6,405,163	-	6,405,163
Current income tax recoverable	196,846	196,846	-	196,846
Property and equipment	11,541,193	-	11,541,193	11,541,193
Operating lease prepayments	-	-	-	-
Intangible assets	3,918,290	-	3,918,290	3,918,290
Freehold land	-	-	-	-
Deferred income tax asset	22,791,061	-	22,791,061	22,791,061
Total Assets	554,216,673	271,726,883	282,489,790	554,216,673
Liabilities				
Deposits due to other banks	3,613,008	3,613,008	-	3,613,008
Derivative financial instruments	40,476	40,476	-	40,476
Customer deposits	423,248,243	420,202,293	3,045,950	423,248,243
Refinance loans	120,870	-	120,870	120,870
Other liabilities	19,221,187	19,221,187	-	19,221,187
Deferred income tax liability	879	-	879	879
Total Liabilities	446,244,663	443,076,964	3,167,699	446,244,663

Group	Statement of financial position Ushs '000	Less than 12 months after the reporting date Ushs '000	More than 12 months after the reporting date Ushs '000	Total Ushs '000
As at 31 December 2015				
Assets				
Cash and balances with Central Bank	77,516,687	77,516,687	-	77,516,687
Deposits and balances due from banking institutions	141,003,197	141,003,197	-	141,003,197
Government securities – Held-to-maturity	98,362,345	68,943,783	29,418,562	98,362,345
Loans and advances to customers	177,020,954	77,499,072	99,521,882	177,020,954
Other assets	7,804,643	7,804,643	-	7,804,643
Current income tax recoverable	349,942	349,942	-	349,942
Property and equipment	11,629,949	-	11,629,949	11,629,949
Operating lease prepayments	-	-	-	-
Intangible assets	3,051,650	-	3,051,650	3,051,650
Freehold land	-	-	-	-
Deferred income tax asset	21,944,698	-	21,944,698	21,944,698
Total Assets	538,684,065	373,117,324	165,566,741	538,684,065
Liabilities				
Deposits due to other banks	4,002,164	4,002,164	-	4,002,164
Customer deposits	440,372,643	434,571,855	5,800,787	440,372,643
Refinance loans	104,167	104,167	-	104,167
Other liabilities	13,330,117	13,330,117	-	13,330,117
Total Liabilities	457,809,091	452,008,303	5,800,787	457,809,091
Bank				
As at 31 December 2016				
Assets				
Cash and balances with Central Bank	68,282,059	68,282,059	-	68,282,059
Deposits and balances due from banking institutions	90,035,159	90,035,159	-	90,035,159
Derivative financial instruments	376,700	376,700	-	376,700
Government securities – Held-to-maturity	99,870,917	86,191,069	13,679,848	99,870,917
Loans and advances to customers	250,755,828	20,196,430	230,559,398	250,755,828
Other assets	6,269,439	6,269,439	-	6,269,439
Investment in subsidiary	80,000	-	80,000	80,000
Current income tax recoverable	204,305	204,305	-	204,305
Property and equipment	11,538,262	-	11,538,262	11,538,262
Operating lease prepayments	-	-	-	-
Intangible assets	3,918,290	-	3,918,290	3,918,290
Freehold Land	-	-	-	-
Deferred income tax asset	22,791,061	-	22,791,061	22,791,061
Total Assets	554,122,020	271,555,161	282,566,859	554,122,020

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.3.5 Current and Non-Current Assets and Liabilities (continued)

Bank	Statement of financial position Ushs '000	Less than 12 months after the reporting date Ushs '000	More than 12 months after the reporting date Ushs '000	Total Ushs '000
As at 31 December 2016				
Liabilities				
Deposits due to other banks	3,613,008	3,613,008	-	3,613,008
Derivative financial instruments	40,476	40,476	-	40,476
Customer deposits	423,624,540	420,578,590	3,045,950	423,624,540
Refinance loans	120,870	-	120,870	120,870
Other liabilities	19,147,023	19,147,023	-	19,147,023
Total Liabilities	446,545,917	443,379,097	3,166,820	446,545,917

	Statement of financial position Ushs '000	Less than 12 months after the reporting date Ushs '000	More than 12 months after the reporting date Ushs '000	Total Ushs '000
As at 31 December 2015				
Assets				
Cash and balances with Central Bank	77,516,687	77,516,687	-	77,516,687
Deposits and balances due from banking institutions	140,957,123	140,957,123	-	140,957,123
Government securities – Held-to-maturity	98,362,345	68,943,783	29,418,562	98,362,345
Loans and advances to customers	177,020,954	77,499,072	99,521,882	177,020,954
Other assets	7,693,964	7,693,964	-	7,693,964
Investment in subsidiary	80,000	-	80,000	80,000
Current income tax recoverable	354,615	354,615	-	354,615
Property and equipment	11,624,362	-	11,624,362	11,624,362
Operating lease prepayments	-	-	-	-
Intangible assets	3,051,650	-	3,051,650	3,051,650
Freehold Land	-	-	-	-
Deferred income tax asset	21,945,634	-	21,945,634	21,945,634
Total Assets	538,607,334	372,965,245	165,642,090	538,607,334
Liabilities				
Deposits due to other banks	4,002,164	4,002,164	-	4,002,164
Customer deposits	440,526,762	434,725,974	5,800,787	440,526,762
Refinance loans	104,167	104,167	-	104,167
Other liabilities	13,278,670	13,278,670	-	13,278,670
Total Liabilities	457,911,763	452,110,975	5,800,787	457,911,762

3.4 Fair value of financial instruments

Group

(a) Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair values, whose carrying amounts are not a reasonable approximation of their fair values:

	Carrying amounts		Fair value	
	2016 Ushs '000	2015 Ushs '000	2016 Ushs '000	2015 Ushs '000
Financial assets				
Loans and advances to customers	250,755,828	177,020,954	318,635,460	230,194,294
Government securities held-to-maturity	99,870,917	98,362,345	113,559,789	119,211,211
	350,626,745	275,383,299	432,195,249	349,405,505
Financial liabilities				
Refinance loan	120,870	104,167	161,895	143,277
Other liabilities	19,221,187	13,330,117	17,345,861	11,176,616
	19,342,057	13,434,284	17,507,756	11,319,893

Bank

(a) Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair values, whose carrying amounts are not a reasonable approximation of their fair values:

	Carrying amounts		Fair value	
	2016 Ushs '000	2015 Ushs '000	2016 Ushs '000	2015 Ushs '000
Financial assets				
Loans and advances to customers	250,755,828	177,020,954	318,635,460	230,194,294
Government securities held-to-maturity	99,870,917	98,362,345	113,559,789	119,211,211
	350,626,745	275,383,299	432,195,249	349,405,505
Financial liabilities				
Refinance loan	120,870	104,167	161,895	143,277
Other liabilities	17,071,790	12,079,640	17,345,861	11,176,616
	17,192,660	12,183,807	17,507,756	11,319,893

(i) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii) Government securities held-to-maturity

The fair value for these held-to-maturity assets is based on market prices. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iii) Refinance loans

The fair value of the refinance loans is obtained through computing the present value of the cash flows using the interest rates for similar facilities. The discounted cash flows are over the term of the loans.

(iv) Other liabilities

The fair value of the other liabilities is computed through computing the present value of the cash flows using the WACC of the bank.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.4 Fair value of financial instruments (continued)

(b) Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable.

Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Uganda Stock Exchange).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for

the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The fair value of the financial assets and liabilities in the table below is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

As at 31 December 2016	Level 1 Ushs '000	level 2 Ushs '000	Level 3 Ushs '000	Total Ushs '000
Assets measured at fair value				
Government securities – Held-to-maturity	-	113,559,789	-	113,559,789
Loans and advances to customers	-	-	318,635,460	318,635,460
	-	113,559,789	318,635,460	432,195,249
Liabilities measured at fair value				
Refinance loans	-	-	161,895	161,895
Other liabilities	-	-	17,345,861	17,345,861
	-	-	17,507,756	17,507,756
As at 31 December 2015	Level 1 Ushs '000	level 2 Ushs '000	Level 3 Ushs '000	Total Ushs '000
Assets measured at fair value				
Government securities – Held-to-maturity	-	-	119,211,211	119,211,211
Loans and advances to customers	-	-	230,194,294	30,194,294
	-	-	349,405,505	349,405,505
Liabilities measured at fair value				
Refinance loans	-	-	143,277	143,277
Other liabilities	-	-	11,176,616	11,176,616
	-	-	11,319,893	11,319,893

3.5 Capital management

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

- To comply with the capital requirements set by the Central Bank;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Uganda (the Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis. The Bank maintains a ratio of core capital to its risk weighted assets and total regulatory capital to its risk-weighted assets above the minimum levels of 8% and 12% respectively as established under the FIA 2005 regulations.

The regulatory capital requirements are strictly observed when managing economic capital. The Bank's

- Tier 1 capital: share capital, general banking reserve, retained earnings and reserves created by appropriations of retained earnings, less any deductions determined by the central bank; and;
- Tier 2 capital: qualifying subordinated loan capital and collective impairment allowances.

The risk weighted assets are measured by means of a hierarchy of 4 risk weights. Risk weights are assigned to assets and off balance sheet items according to the Bank's own estimates of probabilities of default (PD), loss given default (LGD) and credit conversion factors (CCF) for retail business and claims to central governments, institutions and corporates.

Own estimates of risk parameters are in accordance to the minimum requirements set out by Basel II. The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2016 and 2015. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

	2016 Ushs '000	2015 Ushs '000
Tier 1 capital		
Share capital	96,750,000	76,500,000
Retained earnings	4,727,505	1,369,366
Less: Intangible assets	(3,918,290)	(3,051,650)
Less: Deferred income tax asset	(22,791,061)	(21,945,634)
Less: Unrealized foreign exchange gains	(336,224)	-
Less: Investment in subsidiary	(80,000)	(80,000)
Total qualifying Tier 1 capital	74,351,929	52,792,082
Tier 2 capital		
Revaluation reserve	3,116,160	2,601,106
General provisions	3,357,070	2,761,323
Total qualifying Tier 2 capital	6,473,229	5,362,429
Total regulatory capital	80,825,158	58,154,511
Risk-weighted assets:		
On-balance sheet	296,231,630	260,710,984
Off-balance sheet	70,667,933	68,308,898
Total risk-weighted assets	366,899,562	329,019,881
Core capital ratio	20.26%	16.05%
Total capital ratio	22.03%	17.68%

The minimum required core and total capital ratios are 8% and 12% respectively.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial Risk Management (continued)

3.4 Fair value of financial instruments (continued)

	Nominal statement of financial position amounts		Risk Weight	Risk weighted amounts	
	2016 Shs '000	2015 Shs '000		2016 Shs '000	2015 Shs '000
Balance sheet assets (net of provisions)					
Cash and balances with Central Bank	68,282,059	77,516,687	0%	-	-
Deposits and balances due from banking institutions	66,621,846	25,281,027	20%	13,324,369	5,056,205
Due from banks outside Uganda with long-term ratings as follows;					
Rated AAA to AA(-)	169,572	21,758,869	20%	33,914	4,351,774
Rated A (+) to A (-)	17,622,863	83,153,932	50%	8,811,432	41,576,966
Rated A (-) to non-rated	5,620,878	10,763,295	100%	5,620,878	10,763,295
Government securities	99,870,917	98,362,345	0%	-	-
Loans and advances to customers	250,633,336	179,289,803	100%	250,633,336	179,289,803
Investment in subsidiary	80,000	80,000	0%	-	-
Property and equipment	11,538,262	11,624,362	100%	11,538,262	11,624,362
Other assets	6,269,439	7,693,964	100%	6,269,439	7,693,964
Current income tax recoverable	204,305	354,615	0%	-	354,615
Total assets	526,913,477	515,878,899		296,231,630	260,710,984
Off-balance sheet positions					
Performance bonds	2,783,527	2,537,291	50%	1,391,764	1,268,645
Guarantees	49,929,030	45,175,340	100%	49,929,030	45,175,340
Letters of credit	52,522,033	47,839,019	20%	10,504,407	9,567,804
Foreign currency contracts	336,224	-	0%	-	-
Unutilised commitments	17,685,465	24,594,216	50%	8,842,733	12,297,108
	123,256,279	120,145,866		70,667,932	68,308,897
Total risk-weighted assets	650,169,756	636,024,766		366,899,563	329,019,882

The breakdown of the Loans and advances to customers is as below

	2016 Shs '000	2015 Shs '000
Gross loans and advances	254,074,802	181,730,066
Less Interest Suspended	(497,126)	(267,376)
Less Specific Provisions	(2,944,341)	(2,172,887)
Net loans and advances	250,633,336	179,289,803

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and directors' judgements for certain items are especially critical to the Bank's results and financial position due to their materiality.

(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 profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with 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. The directors use 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 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. Refer to note 22.

(b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values

are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions.

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Refer to note 3.4.

(c) Held-to-maturity investments

In accordance with IAS 39 guidance, the Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity 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 were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost. Refer to note 20.

(d) Property, plant and equipment

The bank carries its buildings at revalued amounts, being its fair value at the date of the changes in fair value are recognised in other comprehensive income. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Refer to note 25.

	2016	2015
5. INTEREST INCOME AND INTEREST EXPENSES	Ushs '000	Ushs '000
Group and Bank		
Interest income		
Loans and advances	32,710,396	25,157,815
Deposits and balances due from banking institutions	2,840,857	1,746,298
	35,551,253	26,904,113
Investment securities:		
- Held-to-maturity	14,759,829	13,508,541
	50,311,082	40,412,654
Interest expense		
Deposits from banks	720,716	1,395,771
Deposits from customers	17,119,791	16,009,086
BOU refinance schemes	10,747	13,542
	17,851,254	17,418,399

The effective interest rate for loans and advance is 16.5% (2015:15.7%). The effective interest rate for deposits is 4.4% (2015: 4.2%). The effective interest rate for government securities is 14.6% (2015: 13.7%).

	2016	2015
6. LOAN IMPAIRMENT CHARGES	Ushs '000	Ushs '000
Group and Bank		
Loans and advances to customers (Note 22)		
Net Increase in impairment	2,830,954	5,668,591
	2,830,954	5,668,591
- identified	302,967	2,332,155
- unidentified	2,527,987	3,336,436
	2,830,954	5,668,591

	2016	2015
7. NET FEE AND COMMISSION INCOME	Ushs '000	Ushs '000
Group		
Fee and commission income		
Credit related fees and commissions	2,362,019	2,255,705
Commission income	13,672,795	20,520,976
Commission on trade	459,687	181,533
Other operating income	3,600,959	6,728,672
	20,095,460	29,686,886
Bank		
Fee and commission income		
Credit related fees and commissions	2,362,019	2,255,705
Commission income	13,672,795	20,520,976
Other operating income	3,559,182	6,732,278
	19,593,996	29,508,959

8. NET FOREIGN EXCHANGE GAINS/ (LOSSES)**Group and Bank**

	2016 Ushs '000	2015 Ushs '000
Unrealised exchange gain	336,224	-
Realised exchange losses/gains	3,685,424	(4,529,013)
	4,021,648	(4,529,013)

9. EMPLOYEE BENEFITS EXPENSES**Group**

	2016 Ushs '000	2015 Ushs '000
Wages and salaries	12,257,225	11,105,506
National Social Security Fund contributions	1,232,174	1,146,734
Other staff costs	1,493,319	1,255,323
Defined contribution fund	717,173	705,684
	15,699,891	14,213,247

Bank

	2016 Ushs '000	2015 Ushs '000
Wages and salaries	12,160,205	11,018,006
National Social Security Fund	1,222,472	1,137,984
Other staff costs	1,477,178	1,252,605
Defined contribution fund	717,173	705,684
	15,577,028	14,114,279

10. GENERAL AND ADMINISTRATIVE EXPENSES**Group**

	2016 Ushs '000	2015 Ushs '000
IT and software costs	2,177,009	2,306,933
Occupancy, furniture and equipment	5,649,500	4,418,777
Marketing and public relations	840,433	726,950
Travel and entertainment	78,808	84,717
Telecommunication and postage	1,367,727	1,424,365
Other administrative expenses	1,346,066	937,345
	11,459,543	9,899,087

Bank

	2016 Ushs '000	2015 Ushs '000
IT and software costs	2,177,009	2,306,933
Occupancy, furniture and equipment	5,649,500	4,418,777
Marketing and public relations	838,143	719,301
Travel and entertainment	78,808	84,717
Telecommunication and postage	1,365,327	1,422,015
Other administrative expenses	1,346,066	937,345
	11,454,853	9,889,088

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 Ushs '000	2015 Ushs '000
11. DEPRECIATION AND AMORTISATION		
Group		
Depreciation of property and equipment (Note 25)	2,507,727	2,812,105
Amortisation of intangible assets (Note 26)	2,661,458	2,435,860
	5,169,185	5,247,965
Bank		
Depreciation of property and equipment (Note 25)	2,505,071	2,810,295
Amortisation of intangible assets (Note 26)	2,661,458	2,435,860
	5,166,529	5,246,155
	2016 Ushs '000	2015 Ushs '000
12. REVERSAL OF CHARGES		
Group and Bank		
Reversal of charges	1,036,776	1,139,542
	1,036,776	1,139,542
Reversal of charges relates to concessions given to customers.		
	2016 Ushs '000	2015 Ushs '000
13. OTHER OPERATING EXPENSES		
Group		
Audit fees	155,900	199,990
Other general expenses	12,287,123	11,310,996
	12,443,023	11,510,986
Bank		
Audit fees	155,900	199,990
Other general expenses	12,227,371	11,275,247
	12,383,271	11,475,237
	2016 Ushs '000	2015 Ushs '000
14. INCOME TAX		
Group		
Current income tax	244,429	38,880
Withholding tax expense	2,756,366	2,701,708
Deferred tax credited to profit (Note 27)	(1,930,883)	(3,776,957)
Prior year deferred tax adjustment (Note 27)	832,141	-
Income tax expense/(credit)	1,902,053	(1,065,371)

The tax on the Group's profit before income tax differs from the theoretical amount as follows:

Group	2016 Ushs '000	2015 Ushs '000
Profit before income tax	7,937,564	472,710
Tax calculated at the tax rate of 30% (2015: 30%)	2,381,269	141,813
Effect of:		
- Final tax on government securities	2,756,366	2,701,708
- Income not subject to tax: interest on government securities	(4,220,251)	(3,914,763)
- Bank: Prior year tax adjustment- under provision- deferred tax	832,141	-
- Subsidiary: Prior year tax adjustment- under provision- deferred tax	1,548	-
- Expenses not deductible for tax purposes	150,980	5,871
Income tax expense/(credit)	1,902,053	(1,065,371)
Bank		
Current income tax	150,309	-
Withholding tax expense	2,756,366	2,701,708
Charged/credited to profit (Note 27)	(1,931,762)	(3,776,957)
Prior year deferred tax adjustment (Note 27)	832,141	-
Income tax expense/(credit)	1,807,054	(1,075,249)

The tax on the Bank's profit before income tax differs from the theoretical amount as follows:

	2016 Ushs '000	2015 Ushs '000
Profit before income tax	7,626,061	441,309
Tax calculated at the tax rate of 30% (2015: 30%)	2,287,818	132,393
Effect of:		
- Final tax on Government securities	2,756,366	2,701,708
- Prior year tax adjustment- under provision- deferred tax	832,141	-
- Income not subject to tax: interest on government securities	(4,219,582)	(3,915,222)
- Expenses not deductible for tax purposes	150,311	5,872
Income tax expense/(credit)	1,807,054	(1,075,249)

15. FINANCIAL INSTRUMENTS BY CATEGORY

Group	Loans and receivables Ushs '000	Held to maturity Ushs '000	Derivatives recorded at fair value through profit or loss	Financial liabilities at amortised cost Ushs '000	Total Ushs '000
At 31 December 2016					
Financial assets					
Cash and bank balances with the Central Bank	68,282,059	-	-	-	68,282,059
Deposits and balances due from banking institutions	90,078,616	-	-	-	90,078,616
Derivative financial instruments	-	-	376,700	-	376,700
Investment securities	-	99,870,917	-	-	99,870,917
Loans and advances to customers	250,755,828	-	-	-	250,755,828
Other assets	4,218,270	-	-	-	4,218,270
	413,334,773	99,870,917	376,700	-	513,582,390
Financial liabilities					
Deposits from banks	-	-	-	3,613,008	3,613,008
Deposits from customers	-	-	-	423,248,243	423,248,243
Derivative financial instruments	-	-	40,476	-	40,476
Refinance loans	-	-	-	120,870	120,870
Other liabilities	-	-	-	17,071,791	17,071,791
	-	-	40,476	444,053,912	444,094,388
At 31 December 2015					
Financial assets					
Cash and bank balances with the Central Bank	77,516,687	-	-	-	77,516,687
Deposits and balances due from banking institutions	141,003,197	-	-	-	141,003,197
Investment securities	-	98,362,345	-	-	98,362,345
Loans and advances to customers	177,020,954	-	-	-	177,020,954
Other assets	4,107,592	-	-	-	4,107,592
	399,648,431	98,362,345	-	-	498,010,776
Financial liabilities at amortised cost					
Deposits from banks	-	-	-	-	-
Deposits from customers	-	-	-	4,002,164	4,002,164
Customer deposits	-	-	-	440,372,643	440,372,643
Refinance loans	-	-	-	104,167	104,167
Other liabilities	-	-	-	1,250,476	1,250,476
	-	-	-	445,729,450	445,729,450

Bank					
	Loans and receivables Ushs '000	Held to maturity Ushs '000	Derivatives recorded at fair value through profit or loss	Financial liabilities at amortised cost Ushs '000	Total Ushs '000
At 31 December 2016					
Financial assets					
Cash and bank balances with the Central Bank	68,282,059	-		-	68,282,059
Deposits and balances due from banking institutions	90,035,159	-		-	90,035,159
Derivative financial instruments	-	-	376,700	-	376,700
Investment securities	-	99,870,917		-	99,870,917
Loans and advances to customers	250,755,828	-	-	-	250,755,828
Other assets	3,524,303	-	-	-	3,524,303
	412,597,349	99,870,917	376,700	-	512,844,966
Financial liabilities at amortised cost					
Deposits from banks	-	-	-	3,613,008	3,613,008
Deposits from customers	-	-	-	423,624,540	423,624,540
Derivative liabilities	-	-	40,476	-	40,476
Refinance loans	-	-	-	120,870	120,870
Other liabilities	-	-	-	16,997,627	16,997,627
	-	-	-	444,356,045	444,396,521
At 31 December 2015					
Financial assets					
Cash and bank balances with the Central Bank	77,516,687	-	-	-	77,516,687
Deposits and balances due from banking institutions	140,957,123	-		-	140,957,123
Investment securities	-	98,362,345		-	98,362,345
Loans and advances to customers	177,020,954	-	-	-	177,020,954
Other assets	4,107,592	-	-	-	4,107,592
	399,602,356	98,362,345	-	-	497,964,701
Financial liabilities at amortised cost					
Deposits from banks				4,002,164	4,002,164
Deposits from customers	-	-	-	440,526,762	440,526,762
Refinance loans	-	-	-	104,167	104,167
Other liabilities	-	-	-	12,028,193	12,028,193
	-	-	-	456,661,286	456,661,286

16. CASH AND BALANCES WITH CENTRAL BANK	2016	2015
	Ushs '000	Ushs '000
Group and Bank		
Cash in hand	28,098,003	27,117,381
Balances with the Central bank other than mandatory reserve deposits	7,260,056	15,519,306
Included in cash and cash equivalents (Note 17)	35,358,059	42,636,687
Mandatory reserve deposits with Central Bank	32,924,000	34,880,000
	68,282,059	77,516,687

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations. Cash-in-hand and balances with the Central Bank and mandatory reserve deposits are non-interest-bearing.

The required cash reserve with Bank of Uganda as at 31 December 2016 was Ushs: 32,924 million. The cash ratio requirement is non-interest earning and is based on the value of customer deposits as adjusted by the Bank of Uganda. The cash reserves held are allowed to fluctuate to not less than 50% of the mandatory requirement on a given day provided the average for the specified two weeks period is not lower than minimum requirements, and are subject to sanctions for non-compliance.

17. CASH AND CASH EQUIVALENTS	2016	2015
	Ushs '000	Ushs '000
For the purpose of the statement of cash flows, cash and cash equivalents include:		
Group		
Cash and balances with the Central Bank (Note 16)	35,358,059	42,636,687
Deposits and balances due from banking institutions (Note 18)	90,078,616	141,003,197
Treasury bills maturing within 90 days (Note 20)	20,840,700	11,000,000
Treasury bonds maturing within 90 days (Note 20)	-	17,731,347
	146,277,375	212,371,231
Bank		
Cash and balances with the Central Bank (Note 16)	35,358,059	42,636,687
Deposits and balances due from banking institutions (Note 18)	90,035,159	140,957,123
Treasury bills maturing within 90 days (Note 20)	20,840,700	11,000,000
Treasury bonds maturing within 90 days (Note 20)	(1)	17,731,347
	146,233,917	212,325,157

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

Banks are required to maintain a prescribed minimum cash balance with the Bank of Uganda that is not available to finance the bank's day-to-day activities. The amount is determined by Bank of Uganda as a percentage of the average outstanding customer deposits over a cash reserve cycle period of 2 weeks. Whilst it is available for use in the bank's activities and may fall to 50% of the margin on a given day there are sanctions for non-compliance. As at 31 December, the reserve requirement was Ushs 32.92 billion (2015: Ushs 34.88 billion).

18. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS**Group**

Balances due from other banking institutions
Placements with other banks

2016
Ushs '000

2015
Ushs '000

44,138,166
45,940,450
90,078,616

106,272,877
34,730,320
141,003,197

Bank

Balances due from other banking institutions
Placements with other banks

44,094,709
45,940,450
90,035,159

106,226,803
34,730,320
140,957,123

19. DERIVATIVE FINANCIAL INSTRUMENTS**Group and Bank**

Derivatives held for trading are generally related to products that the Bank provides to its customers. The Bank may also take positions with the expectation of profiting from favourable movements in rates. Most of the trading portfolio is within the Bank's treasury department and is treated as trading risk for risk management purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or credit risk.

	Carrying value of asset	Notional amount assets	Carrying amount value liabilities	Notional amount liabilities
Derivatives held for trading				
Foreign exchange contracts	376,700	26,263,244	40,476	25,927,020
Total	376,700	26,263,244	40,476	25,927,020

There were no foreign exchange contracts in 2015.

20. GOVERNMENT SECURITIES**Group and Bank****Securities held-to-maturity**

Treasury bills

Face value

Maturing within 90 days

Maturing after 90 days

2016
Ushs '000

2015
Ushs '000

20,840,700
43,000,000
63,840,700
(4,258,622)
59,582,078

11,000,000
31,104,000
42,104,000
(2,319,604)
39,784,396

Treasury Bonds

Face value

Maturing within 90 days

Maturing between 90 and 365 days

Maturing after 365 days

-
33,865,480
13,679,848
47,545,328
(7,256,489)
40,288,839

17,731,347
15,526,883
33,593,685
66,851,915
(8,273,966)
58,577,949

Unearned interest

Total government securities

99,870,917

98,362,345

21. INVESTMENT IN SUBSIDIARY	2016	2015
	Ushs '000	Ushs '000
Bank		
Equity securities – at cost:		
– Equity Stock Brokers Ltd	80,000	80,000
Total investment in subsidiary	80,000	80,000

The principal place of business of Equity Stock Brokers Ltd is Kampala. The Bank owns 80% of the company while 20% is owned by Shoal. Further the profit that has been allocated to Shoal Ltd for the year ended 31st Dec 2016 is Ushs. 43.3mn. The accumulated non-controlling interest is Ushs. 94.1mn.

Summary of Equity Stock Brokers Limited's financial statements

	2016	2015
	Ushs '000	Ushs '000
Total assets	558,411	316,497
Total liabilities	76,856	51,445
Revenue	501,464	193,927
Profit after tax	216,504	15,172

22. LOANS AND ADVANCES TO CUSTOMERS	2016	2015
	Ushs '000	Ushs '000

Group and Bank

a) Analysis of loan advances to customers by category:

Retail		
- Overdrafts	1,880,069	3,361,485
- Term loans	40,004,708	30,250,690
	41,884,777	33,612,175
Corporate	139,573,247	104,009,651
SME	72,616,778	44,108,240
	254,074,802	181,730,066
Gross loans and advances to customers	254,074,802	181,730,066
Less: allowance for impairment	(3,318,974)	(4,709,112)
Net loans and advances to customers	250,755,828	177,020,954

b) Gross advances to customers by industry composition:

- Trade and commerce	58,667,114	52,079,852
- Agriculture	39,149,700	13,051,873
- Manufacturing	23,114,327	13,026,149
- Transport & communication	14,223,992	14,127,152
- Building and construction	72,828,900	54,299,132
- Personal, service industry and others	46,090,769	35,145,908
Gross advances to customers	254,074,802	181,730,066

Reconciliation of allowance account for losses on loans and advances to customers is as follows:

	2016 Ushs '000	2015 Ushs '000
At 1 January	4,709,112	5,877,826
Increase in the provision for loan impairment		
. Individually assessed as Per IAS 39	4,971,297	8,717,465
. Collectively assessed as Per IAS 39	2,527,987	3,336,436
Recoveries and allowances no longer required	(4,668,330)	(6,385,310)
Write offs during the year	(4,221,093)	(6,837,305)
At 31 December	3,318,974	4,709,112
Identified Impairment	790,987	1,372,676
Unidentified Impairment	2,527,987	3,336,436
	3,318,974	4,709,112
Charge to the statement of comprehensive income		
Net increase in the provision for loan impairment	2,830,954	5,668,591

The bank hold the following collateral as security for its loans and advances: buildings, land, deposits, margins accounts, plant, machinery and stock among others.

23. OTHER ASSETS	2016 Ushs '000	2015 Ushs '000
Group		
Prepayments	2,526,246	3,430,947
Other receivables	3,878,917	4,373,696
	6,405,163	7,804,643
Bank		
Prepayments	2,390,520	3,320,269
Other receivables	3,878,919	4,373,695
	6,269,439	7,693,964

Prepayments include advance payments made for insurance, advertisement, stationary and software maintenance among others. Other receivables comprises of mainly charges and commission receivable among others.

24. CURRENT INCOME TAX RECOVERABLE	2016 Ushs '000	2015 Ushs '000
Group		
Balance as at 1 January	(349,942)	(261,196)
Current tax charge	3,000,795	2,714,487
Tax paid - current year	(2,847,699)	(2,803,233)
	(196,846)	(349,942)
Bank		
Balance as at 1 January	(354,615)	(266,103)
Current tax charge	2,906,676	2,701,708
Tax paid - current year	(2,756,366)	(2,790,221)
	(204,305)	(354,615)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. PROPERTY AND EQUIPMENT

Group	Land Ushs'000	Buildings Ushs'000	Leasehold improve- ments Ushs'000	Furniture, Fixtures, Strongroom & Safes Ushs'000	Computer Equipment, ATM, POS & SWIFT Ushs'000	Motor vehicles Ushs'000	Office Equip- ment Ushs'000	Work In Progress Ushs'000	Total Ushs'000
COST or VALUATION									
At 1 January 2015	1,046,652	4,807,377	4,307,276	2,741,031	7,971,087	1,574,168	4,820,925	65,100	27,333,617
Additions	-	-	86,301	99,652	723,226	-	547,227	1,756,118	3,212,524
Disposals	-	-	-	-	(1,406)	(350,197)	-	-	(351,603)
Transfer from WIP (Note 26)	-	-	313,092	32,987	31,459	-	69,264	(781,237)	(334,436)
Elimination of accumulated depreciation	-	-	-	-	-	-	-	-	-
Increase on revaluation	-	-	-	-	-	-	-	-	-
At 31 December 2015	1,046,652	4,807,377	4,706,669	2,873,670	8,724,366	1,223,971	5,437,416	1,039,981	29,860,101
At 1 January 2016	1,046,652	4,807,377	4,706,669	2,873,670	8,724,366	1,223,971	5,437,416	1,039,981	29,860,102
Additions	-	-	44,182	238,533	247,347	81,464	234,706	3,864,486	4,710,717
Disposals	-	-	(69)	(17,203)	(29,208)	(474,231)	(276,477)	-	(797,189)
Transfer from WIP (Note 26)	-	-	31,220	118,404	6,539	-	630,149	(4,099,101)	(3,312,789)
Elimination of accumulated depreciation	-	(748,095)	-	-	-	-	-	-	(748,095)
Increase on revaluation	-	1,065,718	-	-	-	-	-	-	1,065,718
At 31 December 2016	1,046,652	5,125,000	4,782,001	3,213,404	8,949,044	831,203	6,025,794	805,366	30,778,464
ACCUMULATED DEPRECIATION									
At 1 January 2015	588,188	657,660	1,727,107	1,790,739	6,613,074	1,053,010	3,311,557	-	15,741,334
Charge for the year	43,029	225,516	530,833	219,776	1,010,978	234,680	547,292	-	2,812,105
Eliminated on disposal	-	-	-	-	(1,406)	(321,850)	-	-	(323,256)
Elimination of accumulated depreciation	-	-	-	-	-	-	-	-	-
At 31 December 2015	631,217	883,176	2,257,940	2,010,516	7,622,646	965,840	3,858,817	-	18,230,183

	Land Ushs'000	Buildings Ushs'000	Leasehold improve- ments Ushs'000	Furniture, Fixtures, Strongroom & Safes Ushs'000	Computer Equipment, ATM, POS & SWIFT Ushs'000	Motor vehicles Ushs'000	Office Equip- ment Ushs'000	Work In Progress Ushs'000	Total Ushs'000
At 1 January 2016	631,217	883,176	2,257,940	2,010,516	7,622,646	965,840	3,858,817	-	18,230,152
Charge for the year	40,361	281,044	547,032	212,879	634,320.70	146,468	645,622	-	2,507,727
Eliminated on disposal	-	-	(67)	(11,522)	(29,188)	(448,790)	(262,946)	-	(752,514)
Elimination of accumulated depreciation	-	(748,095)	-	-	-	-	-	-	(748,095)
At 31 December 2016	671,578	416,125	2,804,905	2,211,873	8,227,779	663,518	4,241,493	-	19,237,270
NET CARRYING AMOUNT									
At cost	375,074	-	1,977,096	1,001,531	721,265	167,685	1,784,301	805,366	6,832,318
At valuation	-	4,708,875	-	-	-	-	-	-	4,708,875
At 31 December 2016	375,074	4,708,875	1,977,095	1,001,531	721,265	167,685	1,784,301	805,366	11,541,193
At 31 December 2015	415,435	3,924,201	2,448,728	863,154	1,101,719	258,131	1,578,600	1,039,981	11,629,949

The buildings at plot 1 Busoga Square, Busoga Avenue, Jinja were revalued on 2nd March 2016 by Remax Ltd. The revaluation surplus for the year ended 31 December 2016 is Ushs 1.065 billion. The revaluation surplus is not distributable to the shareholders.

Work in progress (WIP) relates to the following projects prepaid cards, master card and new branch capital expenditure among others.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Property and equipment (continued)

Bank	Land Ushs'000	Buildings Ushs'000	Lease- hold improve- ments Ushs'000	Furniture, Fixtures, Strongroom & Safes Ushs'000	Computer Equipment, ATM, POS & SWIFT Ushs'000	Motor vehicles Ushs'000	Office Equip- ment Ushs'000	Work In Progress Ushs'000	Total Ushs'000
COST or VALUATION									
At 1 January 2015	1,046,652	4,807,377	4,307,276	2,741,031	7,965,232	1,574,168	4,820,925	65,100	27,327,761
Additions	-	-	86,301	99,652	717,836	-	547,227	1,756,118	3,207,134
Disposals	-	-	-	-	(1,406)	(350,197)	-	-	(351,603)
Transfer from WIP (Note 26)	-	-	313,092	32,987	31,459	-	69,264	(781,237)	(334,436)
Elimination of accumulated depreciation	-	-	-	-	-	-	-	-	-
Increase on revaluation	-	-	-	-	-	-	-	-	-
At 31 December 2015	1,046,652	4,807,377	4,706,668	2,873,670	8,713,121	1,223,971	5,437,416	1,039,981	29,848,856
At 1 January 2016	1,046,652	4,807,377	4,706,668	2,873,670	8,713,120	1,223,971	5,437,416	1,039,981	29,848,856
Additions	-	-	44,182	238,533	247,347	81,464	234,706	3,864,486	4,710,717
Disposals	-	-	(69)	(17,203)	(29,208)	(474,231)	(276,477)	-	(797,189)
Transfer from WIP (Note 26)	-	-	31,220	118,404	6,539	-	630,149	(4,099,101)	(3,312,789)
Elimination of accumulated depreciation	-	(748,095)	-	-	-	-	-	-	(748,095)
Increase on revaluation	-	1,065,718	-	-	-	-	-	-	1,065,718
At 31 December 2016	1,046,652	5,125,000	4,782,000	3,213,404	8,937,799	831,203	6,025,794	805,366	30,767,218
ACCUMULATED DEPRECIATION									
At 1 January 2015	588,188	657,660	1,727,107	1,790,739	6,609,226	1,053,010	3,311,557	-	15,737,487
Charge for the year	43,029	225,516	530,833	219,776	1,009,168	234,680	547,292	-	2,810,295
Eliminated on disposal	-	-	-	-	(1,406)	(321,850)	-	-	(323,256)
Elimination of accumulated depreciation	-	-	-	-	-	-	-	-	-
At 31 December 2015	631,217	883,176	2,257,940	2,010,516	7,616,988	965,840	3,858,817	-	18,224,527

Bank	Land Ushs'000	Buildings Ushs'000	Lease- hold improve- ments Ushs'000	Furniture, Fixtures, Strongroom & Safes Ushs'000	Computer Equipment, ATM, POS & SWIFT Ushs'000	Motor vehicles Ushs'000	Office Equip- ment Ushs'000	Work In Progress Ushs'000	Total Ushs'000
At 1 January 2016	631,217	883,176	2,257,940	2,010,516	7,616,988	965,840	3,858,817	-	18,224,495
Charge for the year	40,361	281,044	547,032	212,879	631,664	146,468	645,622	-	2,505,071
Eliminated on disposal	-	-	(67)	(11,522)	(29,188)	(448,790)	(262,946)	-	(752,514)
Elimination of accumulated depreciation	-	(748,095)	-	-	-	-	-	-	(748,095)
At 31 December 2016	671,578	416,125	2,804,905	2,211,872	8,219,464	663,518	4,241,493	-	19,228,955
NET CARRYING AMOUNT									
At cost	375,074	-	1,977,095	1,001,532	718,334	167,685	1,784,301	805,366	6,829,387
At valuation	-	4,708,875	-	-	-	-	-	-	4,708,875
At 31 December 2016	375,074	4,708,875	1,977,095	1,001,532	718,334	167,685	1,784,301	805,366	11,538,262
At 31 December 2015	415,435	3,924,201	2,448,728	863,154	1,096,131	258,131	1,578,600	1,039,981	11,624,362

The buildings at plot 1 Busoga Square, Busoga Avenue, Jinja were revalued on 2nd March 2016 by Remax Ltd. The revaluation surplus for the year ended 31 December 2016 is Ushs 1.065 billion. The revaluation surplus is not distributable to the shareholders.

Work in progress (WIP) relates to the following projects prepaid cards, master card and new branch capital expenditure among others.

The land relates to land on plot 6 and 6A Kampala Road and Arua.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Property and equipment (continued)

Revaluation of buildings

Management determined that the buildings in Jinja constitute a separate class of property, plant and equipment, based on the nature, characteristics and risks of the property.

Fair value of the properties was determined using the depreciated replacement cost method. The valuation have been performed by a valuer and are based on proprietary databases of prices of transactions for properties of similar nature, location and condition. As at 2 March 2016, the properties' fair values of Ushs 1,425 million are based on valuations performed by Re/max Ltd. A gain from the revaluation of the buildings in Jinja of Ushs. 1,065 million in 2016 was recognised in other comprehensive income.

Significant unobservable inputs

Significant increases (decreases) in estimated value in isolation would result in a significantly higher (lower) fair value on a linear basis.

The fair value measurements have been categorised in level 3 of the fair value hierarchy.

Significant unobservable input data:

Price per acre: USD 600,000

Reconciliation of the carrying amount

	Ushs'000
Carrying amount as at 1 January 2016	3,924,201
Depreciation for the year	(281,044)
Level 3 revaluation gain	1,065,718
Carrying amount and fair value as at 31 December 2016	4,708,875

If the buildings were measured using the cost method, the carrying amounts would be as follows:

	2016 Ushs '000	2015 Ushs '000
Buildings(cost)	3,318,264	3,318,264
Accumulated depreciation	(3,176,761)	(2,951,245)
Net carrying amount	141,503	367,019

26. INTANGIBLE ASSETS

Group and Bank

Cost

	2016 Ushs '000	2015 Ushs '000
At 1 January	10,332,711	8,942,000
Additions	216,377	1,056,275
Transfer from work in progress (Refer to note 25)	3,311,721	334,436
At 31 December 2015	13,860,809	10,332,711

Accumulated amortisation

	2016 Ushs '000	2015 Ushs '000
At 1 January	7,281,061	4,845,201
Amortisation charge	2,661,458	2,435,860
At 31 December 2016	9,942,519	7,281,061
Net carrying amount	3,918,290	3,051,650

The transfer from work in progress in Property, Plant and Equipment (Note 25) is Ushs 3,312 million whereas the transfer above is Ushs 3,311 million. The difference of Ushs 1.068 million has been expensed as it was not a capital item.

27. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2014: 30%). The movement on the deferred income tax account is as follows:

Group	Accelerated tax depreciation Shs'000	Charges for loan impairment Shs'000	Tax Losses Shs'000	Deferred tax on revaluation surplus Shs'000	Derivative financial investments Shs'000	Total Shs'000
a) Deferred income tax asset						
At 1 January 2016	(473,317)	(1,468,316)	(20,742,949)	738,948	-	(21,945,634)
Charged/credited to profit	(258,885)	(305,149)	(1,468,595)	-	100,867	(1,931,762)
Prior year deferred tax adjustment	124,693	707,448	(0)	-	-	832,141
Charged to equity	-	-	-	(65,521)	-	(65,521)
Charged/credited to other comprehensive income	-	-	-	319,715	-	319,715
At 31 December 2016	(607,509)	(1,066,017)	(22,211,544)	993,142	100,867	(22,791,061)
At 1 January 2015	158,077	(411,905)	(18,653,797)	739,884	-	(18,167,741)
Charged/credited to profit	(631,394)	(1,056,411)	(2,089,152)	-	-	(3,776,957)
Charged/credited to other comprehensive income	-	-	-	-	-	-
At 31 December 2015	(473,317)	(1,468,316)	(20,742,949)	739,884	-	(21,944,698)
Bank						
At 1 January 2016	(473,317)	(1,468,316)	(20,742,949)	738,948	-	(21,945,634)
Charged/credited to profit	(258,885)	(305,149)	(1,468,595)	-	100,867	(1,931,762)
Prior year deferred tax adjustment	124,693	707,448	(0)	-	-	832,141
Charged to equity	-	-	-	(65,521)	-	(65,521)
Charged/credited to other comprehensive income	-	-	-	319,715	-	319,715
At 31 December 2016	(607,510)	(1,066,017)	(22,211,544)	993,142	100,867	(22,791,061)
At 1 January 2015	158,077	(411,905)	(18,653,797)	738,948	-	(18,167,677)
Charged/credited to profit	(631,394)	(1,056,411)	(2,089,152)	-	-	(3,776,957)
Charged/credited to other comprehensive income	-	-	-	-	-	-
At 31 December 2015	(473,317)	(1,468,316)	(20,742,949)	738,948	-	(21,945,634)

Group	2016 Ushs '000	2015 Ushs '000
b) Deferred income tax liability		
At 1 January 2016	-	-
Charged/credited to profit or loss	879	-
As at 31 December	879	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. DEPOSITS FROM BANKS	2016	2015
	Ushs '000	Ushs '000
Group and Bank		
Deposits due to other banks	3,613,008	4,002,164
	3,613,008	4,002,164

29. CUSTOMER DEPOSITS

Deposits due to customers primarily comprise savings deposits, amounts payable on demand, and term deposits.

	2016	2015
	Ushs '000	Ushs '000
Group		
Demand deposits	202,021,598	227,705,328
Time deposits	138,842,268	135,198,539
Savings accounts	82,384,377	77,468,775
	423,248,243	440,372,642
Private enterprises and individuals	412,252,216	408,665,404
Government and parastatals	10,996,027	31,707,239
	423,248,243	440,372,643
Bank		
Demand deposits	202,197,895	227,759,448
Time deposits	139,042,268	135,298,539
Savings accounts	82,384,377	77,468,775
	423,624,540	440,526,762
Segment analysis		
Corporate	116,878,984	158,828,846
Retail	214,601,015	200,249,010
SME	92,144,541	81,448,906
	423,624,540	440,526,762
Private enterprises and individuals	412,628,513	408,819,525
Government and parastatals	10,996,027	31,707,237
	423,624,540	440,526,762

30. REFINANCE LOANS

Group and Bank	2016	2015
	Ushs '000	Ushs '000
APEX III/Agricultural Credit Facility (ACF) Loans	120,870	104,167
	120,870	104,167

The refinance loan with Bank of Uganda and is denominated in Uganda Shillings (Ushs) and are unsecured. They attract interest of 10% and mature in June 2018.

31. OTHER LIABILITIES

The other liabilities mentioned below relates to margins held for off balance sheet items, transit liability accounts and statutory deductions payable among others.

The margin and transit liability accounts do not attract any interest rate. They are cash collateral accounts for the off balance sheet items.

	2016 Ushs '000	2015 Ushs '000
Group		
Provisions and accruals	3,902,408	2,555,148
Other	15,318,779	10,774,969
Total	19,221,187	13,330,117
Bank		
Provisions and accruals	3,896,802	2,540,979
Other	15,250,221	10,737,691
Total	19,147,023	13,278,670

32. ISSUED CAPITAL

	Number of shares issued & fully paid (thousands)	Value per share	Total value of shares Ushs '000
2016			
At 1 January 2016 and December 2016	96,750	1,000	96,750,000
At 31 December 2016	96,750	1,000	96,750,000
2015			
At 1 January 2015 and December 2015	76,500	1,000	76,500,000
	76,500	1,000	76,500,000

The total number of ordinary shares paid up at year end was 96.75 million (2015: 76.5 million) with a par value of Ushs 1,000 per share (2015: Ushs 1,000 per share). The total number of ordinary shares authorised for issue is 100 million.

	2016 Millions	2015 Millions
Number of shares		
At 1 January 2016	76.50	76.50
Increase in shares	20.25	-
As at 31 December 2016	96.75	76.50

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. REVALUATION RESERVE

The revaluation reserve shows the effects from the revaluation of buildings after deduction of deferred income taxes. Changes in the revaluation surplus may be transferred to retained earnings in the subsequent periods as the asset is used or when it is derecognised. The revaluation reserve relates to surplus on revalued property and is not available for distribution to shareholders.

	2016 Ushs '000	2015 Ushs '000
At start of year	2,601,106	2,562,073
Transfer of excess depreciation net of tax	(230,949)	39,033
Increase in revaluation surplus	746,003	-
At end of year	3,116,160	2,601,106

34. CREDIT RISK RESERVE

The statutory credit risk reserve represents an appropriation of retained earnings to comply with the Financial Institutions Act, 2004. The balance in the reserve represents the extent to which provisions for loan losses determined in accordance with the Financial Institutions Act, 2004 exceed amounts determined in accordance with IFRS. The reserve is not distributable. Below is the reconciliation of the statutory credit risk reserve per the Bank of Uganda guidelines and per IFRS:

	2016 Ushs '000	2015 Ushs '000
Provisions as per Bank of Uganda guidelines		
Specific provisions	2,944,341	2,172,887
General Provisions	3,357,070	2,761,323
	6,301,411	4,934,210
Provisions as per IFRS guidelines		
Individual impairment	790,987	1,372,676
Collective impairment	2,527,987	3,336,436
	3,318,974	4,709,112
Statutory credit risk reserve	2,982,437	225,098

35. DIVIDENDS PAYABLE

The directors do not recommend the payment of dividends for the year (2015: Nil).

36. COMMITMENTS AND CONTINGENT LIABILITIES

The Bank is a litigant in several cases which arise from normal day to day banking.

The directors have carried out an assessment of all the cases outstanding as at 31 December 2016 - supported by independent professional legal advice - and where considered necessary based on the merits of each case, a provision has been raised. In aggregate the total provisions amounting to Shs 2,098 million (2015: Shs 1,250 million) has been made. Below is the schedule of movement in the legal provision:

36. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

	2016 Ushs '000	2015 Ushs '000
Opening balance	1,250,476	853,609
Increase in provision	1,797,819	803,111
Decrease in provision (payments and adjustments)	(950,570)	(406,244)
Closing balance	2,097,725	1,250,476

The directors believe that the resolution of pending legal cases will not give rise to losses above amounts already provided.

(b) Capital commitments

At 31 December 2016, the Bank had capital commitments of Shs 805 million (2015: Shs 1,033 million).

(c) Loan commitments, guarantee and other financial facilities

In common with other banks, the Bank conducts business involving acceptances, letters of credit, guarantees and performance bonds. The majority of these facilities are offset by corresponding obligations of third parties.

	2016 Ushs '000	2015 Ushs '000
Loan commitments	17,685,465	24,594,216
Performance Bonds	2,783,527	2,537,291
Guarantees	49,929,030	45,175,340
Foreign currency contracts	336,224	-
Documentary and letters of credit	52,522,033	47,839,019
Total	123,256,279	120,145,866

37. RELATED-PARTY DISCLOSURES

Transactions and balances with related parties as at the year end were as follows:

Name of parent:

	2016 Ushs '000	2015 Ushs '000
a) Related party balances		
Deposits from directors and shareholders	5,496,220	5,644,577
Deposits from Equity Stock Brokers Ltd	376,297	154,121
The effective interest rate for deposits is 4.4% (2015: 4.2%).		
b) Related party transactions		
Interest:		
Interest paid to related parties/directors	549,779	352,301
Interest paid to Equity Stock Brokers Ltd	11,436	13,905
Directors' remuneration		
Directors' fees	776,905	668,168
Other emoluments	438,618	387,051
	1,215,523	1,055,219
c) Key management compensation-Orient Leadership Team		
Salaries and short-term benefits	1,036,369	916,344
Defined contribution benefits	70,293	64,144

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. PRIOR YEAR ADJUSTMENTS

The following 2015 items have been restated;

	Note	2015 Restated Ushs '000	2015 Previously stated Ushs '000	Variance Ushs '000
Group				
Statement of financial position				
Assets				
Land	a	1,046,652	15,100,000	(14,053,348)
Property, Plant and Equipment	b	11,629,949	11,214,515	415,435
Capital and reserves				
Revaluation reserve	c	2,601,106	12,768,567	(10,167,461)
Retained earnings	d	1,497,897	1,517,471	(19,574)
Statement of changes in equity				
Revaluation reserve	c	2,601,106	12,768,567	(10,167,461)
Retained earnings	d	1,497,897	1,517,471	(19,574)
Bank				
Statement of financial position				
Assets				
Land	a	1,046,652	15,100,000	(14,053,348)
Property, Plant and Equipment	b	11,624,362	11,208,927	415,435
Capital and reserves				
Revaluation reserve	c	2,601,106	12,768,567	(10,167,461)
Retained earnings	d	1,369,366	5,746,424	(4,377,057)
Statement of changes in equity				
Revaluation reserve	c	2,601,106	12,768,567	(10,167,461)
Retained earnings	d	1,369,366	5,746,424	(4,377,057)
Statement of comprehensive income				
Depreciation and amortisation	e	2,810,295	2,790,721	19,574

Land

(a) The policy of the bank is to carry land at cost. In the prior year, the land was revalued and a revaluation surplus of Ushs 14.05 billion passed in the financial statements, which was not in line with the bank's policy. The adjustment of Ushs 14.05 billion relates to a correction of this error, in order to reverse the recognition of the revaluation surplus.

Property, Plant and Equipment

(b) The adjustment of Ushs 415 million relates to a reclassification of land to property, plant and Equipment. This was previously booked as a separate note in the financial statements but has now been reclassified to property, plant and equipment.

Revaluation reserve

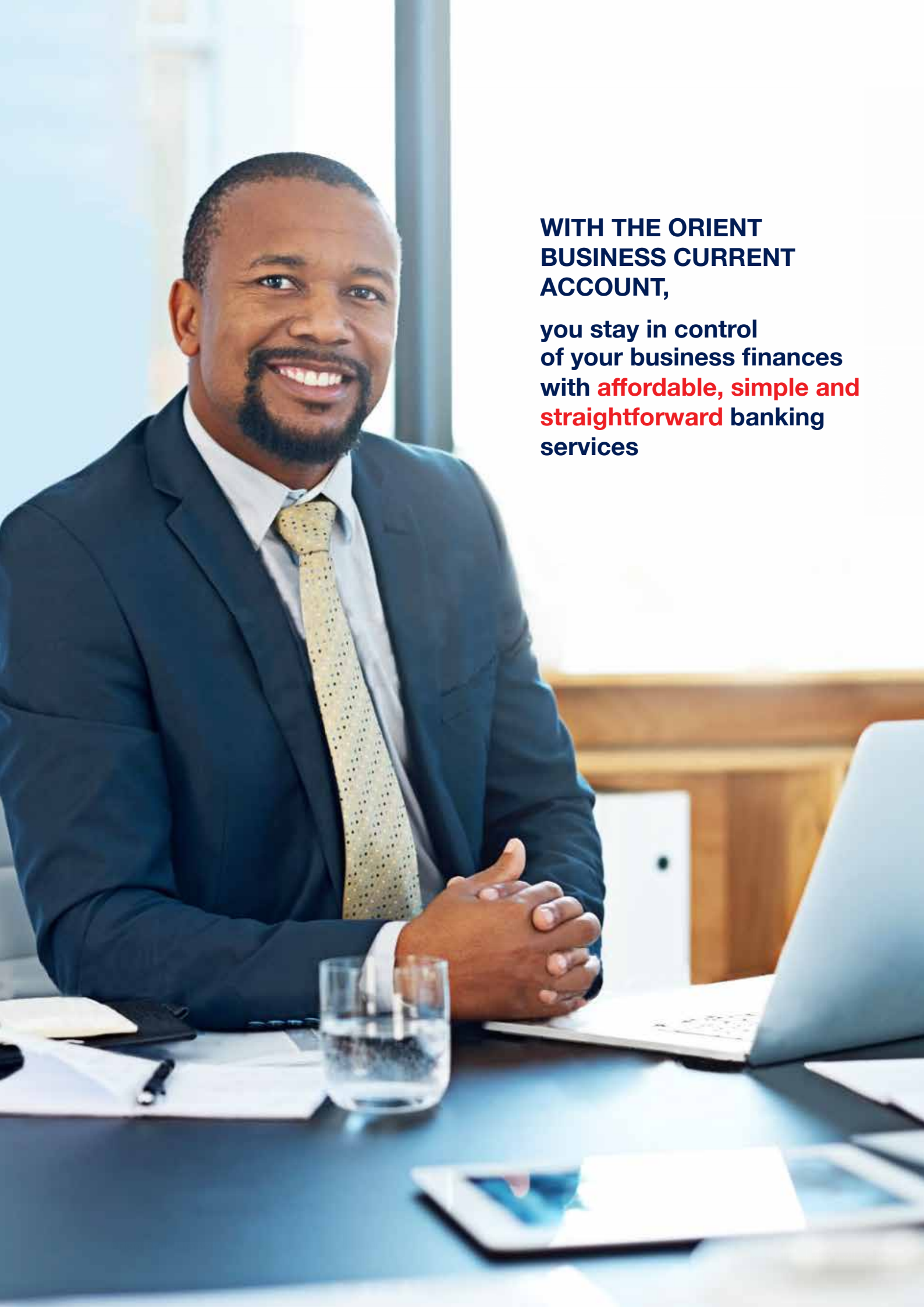
(c) The adjustment of Ushs 10.1 billion relates to the correction of an error to reverse the revaluation surplus net of tax as a result of the land being erroneously recognised on a revaluation model rather than at cost. Refer to note (a).

Retained earnings

(d) The adjustment of Ushs 4.4 billion relates to a correction of an error to reverse the tax on the revaluation surplus as a result of the land being erroneously recognised on a revaluation model rather than at cost. (Refer to note (a)) and also the recognition of amortisation that had not been previously recognised (Refer to note (e)).

Depreciation and amortisation

(e) The adjustment of Ushs 19 million relates to amortisation of property that was not previously recorded. There has been no change to the periods prior to 2015, as the accounting policy was appropriately applied in those previous periods. As a result, no third statement of financial position has been presented.



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