



ANNUAL REPORT

2017



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ANNUAL REPORT

2017

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CORPORATE INFORMATION

DIRECTORS

Mr. Michael Cook	Chairman	British
Mr. Ketan Morjaria	Vice-Chairman	Ugandan
Mr. Hemen Shashikant Shah	Non Executive Director	American
Mr. Francis M. Byaruhanga	Non Executive Director	Ugandan
Mr. Joram Kahenano	Non Executive Director	Ugandan
Mr. Zhong Shuang Quan (Alternative: Mr. Jay Karia)	Non Executive Director	Chinese
Mr. Julius Kakeeto	Managing Director	Ugandan
Ms. Darshana Bhatia	Executive Director	Indian

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

Deloitte & Touche

Certified Public Accountants
 3rd Floor, Rwenzori House,
 Plot 1, Lumumba Avenue
 P. O. Box 10314
 Kampala

REGISTERED OFFICE

Orient Plaza
 Plot 6/6A Kampala Road
 P. O. Box 3072
 Kampala



OUR BRANCH NETWORK

Branches

Head Office/ Main Branch

Orient Plaza, Plot 6/6A 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

Scindia Road
Jinja

Kabalagala Branch

Plot 1900 Ggaba Road,
Kampala

Katwe Branch

Muganzirwazza Plaza - Katwe
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

Mbarara Branch

Plot 73 High Street
Mbarara

Nkrumah Road Branch

Mirembe Arcade, Nasser Road
Kampala

Ntinda Branch

Capital Shoppers' Mall Ntinda
Kampala

William Street Branch

William Street
Kampala

ABOUT US

Orient Bank is a leading private sector commercial Bank in Uganda. We began operations in 1993 and have grown steadily 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, 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 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
- Diaspora Account
- Target Savings Account



RETAIL CREDIT

- 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

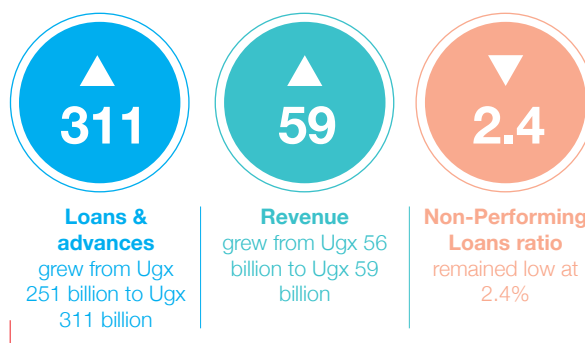
We have considerable experience in the provision of customer payments and cash management services for big organizations both local and foreign which includes;

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



The Bank has revamped its business strategy with a strong emphasis on five key pillars; Performance, Service, People, Controls and Technology. With this strategy we expect to achieve accelerated growth in the years ahead.

CHAIRMAN'S STATEMENT



2018 is a special year for Orient Bank as we shall be celebrating our Silver Jubilee.

On 15th March 1993, the Bank opened its doors to the public for the first time with our first branch at Uganda House. Our second branch was soon opened in Jinja and more recently Mbarara Branch became our 22nd branch.

Over the last 25 years the Bank has grown significantly. Our customer deposits at the end of 1994 were UGX 3.5 billion, our loans and advances UGX 354 million and our profit before tax UGX 245 million. Today as at 31st December 2017, our customer deposits were UGX 423 billion, our loans and advances UGX 250 billion and our profit UGX 6.9 billion.

This growth could not have been possible without the support of you our customers who have stood by us throughout the years in both good and tough times. We appreciate your loyalty and as we celebrate 25 years of banking excellence, we renew our commitment to serve you even better in the years ahead.

I thank our regulator, Bank of Uganda for their support and partnership over the years. Your strict guidance which we have done our best to follow has ensured Orient Bank stands here today strong and looking forward to the years ahead.

I also thank our staff, past and present, for their dedicated service to the Bank over the last 25 years. Each one of you has contributed in no small way to the success of this Bank and I thank you for your Service, Passion, Innovation, Resilience, Integrity and Teamwork.

In regards to Uganda's economic performance in 2017, the economy grew sluggishly with real GDP growth up to 4.0% in 2017 from 2.5% in 2016. There was an overall downward inflationary trend with annual headline inflation reducing from 5.7% in December 2016 to 3.0 % in December 2017 and core inflation reducing from 5.9% to 3.3% over the same period. The continued drop was in part due to the stability of the exchange rate and lower food prices for the larger part of the year. Because of the dampened inflationary pressures there was an easing in monetary policy with

Bank of Uganda reducing the Central Bank Rate from 12% at end of 2016 to 9.5% by close of 2017.

Financial Performance

In spite of the difficult operating environment, Orient Bank managed to achieve significant growth across our key indicators in the year ending December 2017.

Improved performance was particularly registered in the following areas;

- Total assets grew from Ugx 554 billion to Ugx 681 billion
- Loans & advances grew from Ugx 251 billion to Ugx 311 billion
- Deposits grew from Ugx 423 billion to Ugx 555 billion
- Revenue grew from Ugx 57 billion to Ugx 59 billion and,
- Non-Performing Loans ratio remained low at 2.4%

Strategy into the Future

The outlook for 2018 is positive premised on recovery in private sector credit, favourable weather conditions and an increase in Foreign Direct Investment. The Bank has revamped its business strategy with a strong emphasis on five key pillars; Performance, Service, People, Controls and Technology. With this strategy we expect to achieve accelerated growth in the years ahead.

Conclusion

I thank management and staff for their efforts in driving and delivering on the business strategy and for building a firm foundation for future growth. I also 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 and expertise.

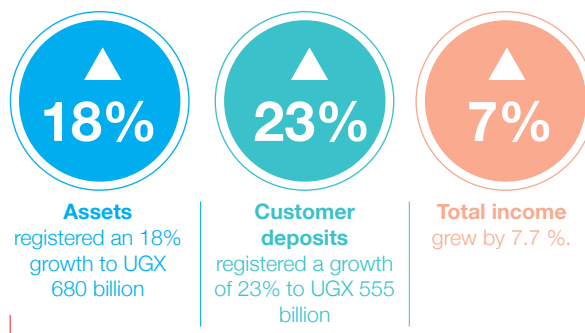
Happy Silver Jubilee Orient Bank.

Michael Cook
Chairman Board of Directors



We invested in revamping the ATM network with automatic cash depositors and US Dollar cash dispensing. This has allowed our customers the convenience of accessing and depositing cash on their accounts in both US Dollars and Uganda shillings

MANAGING DIRECTOR/ CEO'S STATEMENT



Introduction

It gives me great pleasure to present to you the financial report for the year ended 31st December 2017. The Bank continued with its growth in customer volumes which resulted into Assets growth of 18% to UGX 680 billion and Deposit growth of 23% to UGX 555 billion. The Bank also registered growth in Loans and Advances by 19% to UGX 311 billion.

Despite the positive growth on most of the metrics, profitability dropped by 20% to UGX 4.8 billion as a result of increased interest expense on deposits and provision for doubtful debts.

Overview of Achievements in 2017

We launched the Orient Payment Gateway "Xpresspay", a product that allows local companies to receive online payments from customers across the world using their VISA and MasterCard debit or credit cards, with transactions settled in both local currency and United States Dollars (USD). To date over USD 10 million has been transacted through the platform.

We invested in revamping the ATM network with automatic cash depositors and US Dollar cash dispensing. This has allowed our customers the convenience of accessing and depositing cash on their accounts in both US Dollars and Uganda shillings.

The Bank launched a partnership with MasterCard to enable the acceptance of their cards on our ATMs and Point-of-Sale (POS) terminals, creating more payment options for our customers.

Corporate Social Responsibility

In 2017 the Orient Business Academy, the premier Corporate Social Responsibility Project of the Bank entered its second year. The Academy offers training to Small and Medium size Enterprises (SME) entrepreneurs in financial literacy and business skills.

This year's training covered the following;

- The Entrepreneurial mind-set
- Book-keeping
- Competitive market analysis

- Marketing
- Human Resource management, operations and financial planning.

Every participating business developed a business growth plan and the best will receive funding of up to UGX 30 million. The academy is run in partnership with Makerere University Business School.

Focus for 2018

2018 will mark a significant milestone for Orient Bank as it will be celebrating 25 years of operation in Uganda.

We will continue enhancing the Bank's electronic banking platforms in order to grow our self-service channels and improve on customer experience. Our Point of Sale and ATM network as well as Xpresspay will be enabled to accept China Union Pay cards.

We will launch a Mobile Banking application that will enable our customers access a wide range of banking services on their phones.

We shall also be expanding our branch network to Mbarara and Nakivubo.

Conclusion

I would like to take this opportunity to thank our customers for the partnership, the Board for the guidance, the management team and all my colleagues for your dedication and hard work.

Congratulations Orient Bank on the Silver Jubilee.

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 - **Non Executive Director**



STANDING (L - R) Zhong Shuang Quan - **Non Executive Director**, Joram Kahenano - **Non Executive Director**
Darshana Bhatia - **Executive Director** Nicholas Ecimu - **Secretary**
Francis M. Byaruhanga - **Non Executive Director** Jay Karia (not in photo) - **Non Executive 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 advise on future aid policy.



KETAN MORJARIA

Vice Chairman

Cr Ri Co Al

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

Cr Al Ri

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.



HEMEN SHASHIKANT SHAH

Non Executive Director

Ri Al Co Cr

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.



JORAM KAHENANO

Non Executive Director

Au Ri

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.

Al Member of Asset and Liability Committee

Cr Member of Credit Committee

Au Member of Audit Committee





FRANCIS MAGEMBE BYARUHANGA

Non Executive Director

Co Cr Au

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.



ZHONG SHUANG QUAN

Non Executive Director

AI

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.



JAY KARIA

Alternative - Non Executive Director

AI

Mr. Karia is a business magnate with over 25 years diversified exposure in London, Kenya and Uganda. He has served in several managerial capacities as Manager Lloyds Exports UK, Manager Kabril Limited UK. He has also severed on several boards including Lloyds Exports and, Kabril Limited- in London UK, Orion FXB Ltd and Credit Bank in Nairobi Kenya.



DARSHANA BHATIA

Executive Director

Cr AI Ri

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.



NICHOLAS ECIMU

Company Secretary

Mr. Eciimu 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.

Ri Member of Risk/Compliance Committee

Co Member of Compensation Committee

Committee Chairman

EXECUTIVE COMMITTEE



JULIUS KAKEETO
Managing Director/CEO



DARSHANA BHATIA
Executive Director



MILLIE NKAJA
Head of Credit



PANKAJ SHARMA
Head of Operations



ANDREW AGABA
Head of Retail & SME

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REPORT OF THE DIRECTORS

The Directors present their report together with the audited consolidated and separate financial statements of the Orient Bank Limited (the “Bank”) and its subsidiary, Equity Stock Brokers Limited (together “the Consolidated”) for the year ended 31 December 2017.

ACTIVITIES

The principal activities of the Bank are the provision of commercial banking and related financial services.

The principal activity of the subsidiary is stock brokering.

RESULTS AND DIVIDEND

The Consolidated and Bank profit for the year of Ushs 4,818 million (2016: profit of Ushs 6,036 million) and Ushs 4,810 million (2016: profit of Ushs 5,819 million) respectively has been transferred to retained earnings. The directors do not recommend payment of dividend for the year (2016: 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 Audit Committee, Risk Committee, Asset & Liability Committee, Remunerations and Nominations Committee, Credit Committee, Board IT Committee. All of these Board Committees are constituted and chaired by non-executive directors. As at 31 December 2017, the Board of Directors consisted of 8 members.

a) Audit Committee

This committee is chaired by an independent Non-Executive Director. The committee meets every quarter and also comprises:

- i) Mr. Francis M. Byaruhanga
- ii) Mr. Joram Kahenano

The Audit Committee informs the Bank and the Board of any risks, suspected frauds or irregularities, failures

of internal control or suspected infringements of laws, rules and regulations which come to its attention.

b) Asset and Liability Committee

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

- i) Mr. Hemen Shashikant Shah
- ii) Mr. Ketan Morjaria
- iii) Mr. Zhong Shuang Quan
(Alternative: Mr. Jay Karia)
- iv) Mr. Julius Kakeeto
- v) Ms. Darshana Bhatia

The overall objective of the Asset and Liability Committee is to maximize earning and return on capital with acceptable and controllable levels of the main treasury risks i.e. liquidity, interest rate, foreign exchange and concentration risks. The assets and liabilities of the Bank shall be managed to maximize shareholder value, to enhance profitability and increase capital, and to protect the Bank from any excessive financial risks arising from changes in interest rates.

c) Remuneration and Nominations Committee

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

- i) Mr. Francis M. Byaruhanga
- ii) Mr. Ketan Morjaria
- iii) Mr. Hemen Shashikant Shah

The Committee is responsible for ensuring that the Board remains balanced, both in terms of skills and experience, and between Executive and Non-Executive Directors. It is authorized to lead the process for appointments to the Board, and make recommendations to the Board, ensuring there is a formal, rigorous and transparent procedure.

d) Risk committee

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

- i) Mr. Hemen Shashikant Shah
- ii) Mr. Joram Kahenano
- iii) Mr. Ketan Morjaria
- iv) Mr. Julius Kakeeto
- v) Ms. Darshana Bhatia

The committee is granted the authority for (i) oversight and advice to the board in relation to the current and potential risk exposures of OBL; (ii) oversight of the Bank's Risk Management Framework; (iii) the future



risk strategy of the bank, including strategy for capital and liquidity management and the determination of risk appetite and tolerance, and (iii) promoting a risk awareness culture in the bank, alongside established policies and procedures.

e) Credit Committee

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

- i) Mr. Ketan Morjaria
- ii) Mr. Hemen Shashikant Shah
- iii) Mr. Francis M. Byaruhanga
- iv) Mr. Julius Kakeeto
- v) Ms. Darshana Bhatia

The Credit Committee seeks to ensure that the quality of the Bank's asset book remains within acceptable parameters and that the business has an effective credit policy, consistent with regulatory requirements and prudent risk management practices.

f) IT Committee

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

- i) Mr. Ketan Morjaria
- ii) Mr. Hemen Shashikant Shah
- iii) Mr. Julius Kakeeto
- iv) Ms. Darshana Bhatia

The IT Committee is granted the authority for oversight and advice to the Board on IT strategy and initiatives, and to oversee the implementation and cost effectiveness of IT projects and IT security.

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 37 to the financial statements, no director has received or

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 36 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.

STATEMENT OF GOING CONCERN

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

INDEPENDENT AUDITORS

The auditors, Deloitte & Touche, were appointed during the year and have expressed their willingness to continue in office in accordance with section 167(2) of the Ugandan Companies Act, 2012.

BY ORDER OF THE BOARD



Secretary
Nicholas Ecimu
C/O Sebalu & Lule Advocates
Kampala

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept responsibility for these Consolidated and Separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and 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 Consolidated and Separate 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 2017 in accordance 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 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 consolidated and separate 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 Consolidated will not remain a going concern for at least twelve months from the date of this statement.

The Consolidated and Separate financial statements were approved by the Board of Directors on April 28 2018 and signed on its behalf by;



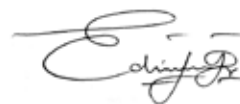
Michael Cook
Chairman



Ketan Morjaria
Vice Chairman



Julius Kakeeto
Managing Director/ CEO



Nicholas Ecimu
Company Secretary

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF ORIENT BANK LIMITED

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of Orient Bank Limited and its subsidiary, as set out on pages 14 to 123. These Consolidated and Separate financial statements ("the financial statements") comprise the Consolidated and Separate Statements of financial position as at 31 December 2017, and the Consolidated and Separate Statements of profit or loss and other comprehensive income, Consolidated and Separate Statements of changes in equity and Consolidated and Separate Statements 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 Consolidated and separate financial statements present fairly the state of the financial affairs of the Consolidated and Bank as at 31 December 2017, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards

(IFRSs) and requirements of the Uganda Companies Act, 2012 as well as the Financial Institutions Act 2004 as amended by the Financial Institutions (Amendment) Act, 2016.

Basis for 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Uganda. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

Key Audit Matter	How the matter was addressed in the audit
Allowance for impairment on loans and advances The allowance for impairment of loans to customers is considered to be a matter of significance as it requires the application of significant judgement and use of subjective assumptions by the directors. The Bank records both individual and portfolio allowances of loans and advances to customers. The Corporate banking cluster (collectively "corporate") represent 79% (Ushs 253 Billion) of the group's net loan exposure, whereas Retail clients represent 21% (Ushs 66 Billion). These exposures are different in nature and require specific considerations in regards to loan impairment. All loans that show increased credit risks, based on management judgement and primarily based on days in arrears, are monitored individually (individual impairment assessment).	Our audit included identifying relevant controls that address the impairment risks identified and evaluating the design and implementation, and where possible the operating effectiveness, of these controls. We focused on controls over the identification of impairment losses; the governance processes in place for credit models, inputs and assumptions; the credit forums where key judgements are considered; and how the Directors ensure they have appropriate oversight over loan provisions. a) Our procedures in response to the risks specific to the individually assessed impairment (in the Corporate and retail clusters) included the following; We selected a sample of performing loans and advances and performed a detailed independent assessment of the credit losses identified, focusing on whether there is evidence of an incurred loss.

Key Audit Matter	How the matter was addressed in the audit
The assessment process requires detailed knowledge of the borrower and requires credit officers to use judgement to determine whether a loss event has occurred and the amount of the resulting loss. For both corporate and retail exposures not included in the specific impairment assessment above, are then monitored through delinquency and loss rate statistics (portfolio impairment assessment). Given the strict Bank policies, impaired loans are evaluated for impairment on an individual basis to the extent of a loss event. Significant judgement is required by the Directors in assessing the impairment against individual loans and advances. Given the combination of inherent subjectivity in the valuation, and the material nature of the balance, we considered the valuation of impairment allowance on loans and advances to customers to be a key audit matter in our audit of the financial statements. The judgements applied in determining the impairment include; - the expected period of recovery in future expected cash flows; - the realizable value of the collateral securing the advance and other expected cash flows; - the time to realization; - the average historical loss rate per portfolio Refer to Note 21 of the consolidated and separate financial statements.	- For a sample of loans and advances that had been individually assessed and impaired, including those loans on the watch list, we independently challenged the valuation of impairment losses that had been incurred, including developing our own expectation of the amount of the provision. - In order to focus our procedures on the areas where there is a higher risk, we performed detailed credit loss assessments of loans and advances with higher-risk credit grades. - When performing work on the valuation of provisions, we paid particular attention to the valuation of, and rights to, security held. Where management has used specialists to provide valuations, we assessed their competence and the timeliness of these valuations. - For a sample of selected impaired loans and advances, we assessed the Directors' forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. We evaluated the consistency of key assumptions applied, benchmarking these to our own understanding of the relevant industries and business environments, to assess the validity of the collateral valuations. - We made use of our internal specialists to critically assess impairment models and the key assumptions that drive the collective impairment valuation. - We re-computed the Directors' calculation of the impairment allowances to check the accuracy of the data captured in the impairment computation.

Other matters

The consolidated and separate financial statements of Orient Bank Uganda Limited for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 26 April 2017.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the 'Report of the Directors' (page 4 – 7) and 'Supplementary information to the annual report and consolidated and separate financial statements (page 124 – 131). 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 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 directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation of the Consolidated and Separate financial statements ("financial statements") that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Uganda Companies Act, 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 Consolidated and Separate financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no

realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate financial statements ("financial statements") as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (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 judgment and maintain professional scepticism throughout the audit. We also:

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

cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated and Separate 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.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other Legal Requirements

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

1. We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of the audit;
2. In our opinion, proper books of account have been kept by the bank, so far as appears from our examination of those books;
3. The Consolidated and Separate Statements of financial position (Balance sheet) and Consolidated and Separate Statements of profit or loss and other comprehensive income (profit or loss) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is Norbert Kagoro Practicing Certificate No. P0053.

Certified Public Accountant of Uganda

CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	CONSOLIDATED		SEPARATE	
		2017 Ushs'000	2016 Ushs'000	2017 Ushs'000	2016 Ushs'000
Interest and similar income	5	56,462,951	50,311,082	56,462,951	50,311,082
Interest and similar expenses	5	(21,608,220)	(17,851,254)	(21,608,220)	(17,851,254)
Net interest income		34,854,731	32,459,828	34,854,731	32,459,828
Net fee and commission income	6	20,099,280	20,095,460	19,911,444	19,593,996
Net foreign exchange gains	7	3,762,848	4,021,648	3,762,848	4,021,648
Revenue		58,716,859	56,576,936	58,529,023	56,075,472
Loan impairment charges	8	(6,253,779)	(2,830,954)	(6,253,779)	(2,830,954)
Employee benefits expenses	9	(17,810,258)	(15,699,891)	(17,698,394)	(15,577,028)
General and administrative expenses	10	(12,304,528)	(11,459,543)	(12,299,578)	(11,454,853)
Other operating expenses	12	(15,373,520)	(17,612,208)	(15,312,424)	(18,586,576)
Profit before income tax		6,974,774	7,937,564	6,964,848	7,626,061
Income tax expense	13	(2,156,609)	(1,902,053)	(2,153,997)	(1,807,054)
Profit for the year		4,818,165	6,035,511	4,810,851	5,819,007
Other comprehensive income that will not be reclassified to the statement of profit or loss					
Revaluation surplus on buildings	24	-	1,065,718	-	1,065,718
Deferred income tax on revaluation gain	26	-	(319,715)	-	(319,715)
Other comprehensive income for the year, net of tax		-	746,003	-	746,003
Total comprehensive income for the year		4,818,165	6,781,514	4,810,851	6,565,010

Profit attributable to:

Owners of the company	4,816,946	5,992,210
Non-controlling interests	1,219	43,301
	4,818,165	6,035,511

Total comprehensive income for the year attributable to:

Owners of the company	4,816,946	6,738,213
Non-controlling interests	1,219	43,301
	4,818,165	6,781,514

The notes on pages 31 to 99 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

		CONSOLIDATED		SEPARATE	
	Note	2017 Ushs'000	2016 Ushs'000	2017 Ushs'000	2016 Ushs'000
Assets					
Cash and balances with Central Bank	15	93,832,065	78,291,922	93,832,065	78,291,922
Deposits and balances due from banking institutions	17	177,248,124	80,068,753	177,236,485	80,025,296
Derivative financial assets	18	1,551,136	376,700	1,551,136	376,700
Government securities – Held-to-maturity	19	46,654,419	99,870,917	46,654,419	99,870,917
Government securities – Held-for-trading	19a	1,680,021	-	1,680,021	-
Investment in subsidiary	20	-	-	80,000	80,000
Loans and advances to customers	21	310,780,076	250,755,828	310,780,076	250,755,828
Other assets	22	5,023,610	6,405,164	4,898,168	6,269,441
Current income tax recoverable	23	5,742	196,846	-	204,305
Property and equipment	24	16,896,456	11,541,193	16,895,324	11,538,262
Intangible assets	25	3,275,227	3,918,290	3,275,227	3,918,290
Deferred income tax asset	26	23,990,548	22,791,061	23,990,548	22,791,061
Total assets		680,937,424	554,216,674	680,873,469	554,122,022
Liabilities					
Customer deposits	28	554,792,435	423,248,243	555,213,730	423,624,540
Deposits due to other banks	27	155,060	3,613,008	155,060	3,613,008
Derivative financial instruments	18	4,769	40,476	4,769	40,476
Refinance loans	29	83,949	120,870	83,949	120,870
Other liabilities	30	12,818,688	19,221,187	12,736,999	19,147,023
Deferred income tax liability	26	340	879	-	-
Total liabilities		567,855,241	446,244,663	568,194,507	446,545,917
Capital and reserves					
Issued capital	31	96,750,000	96,750,000	96,750,000	96,750,000
Revaluation reserve	32	2,434,811	3,116,161	2,434,811	3,116,161
Credit risk reserve	33	-	2,982,438	-	2,982,438
Retained earnings		13,801,980	5,029,239	13,494,151	4,727,506
Equity attributable to owners of the Bank		112,986,791	107,877,838	112,678,962	107,576,105
Non-controlling interests		95,392	94,173	-	-
Total equity		113,082,183	107,972,011	112,678,962	107,576,105
Total equity and liabilities		680,937,424	554,216,674	680,873,469	554,122,022

The Consolidated and separate financial statements were authorised for issue by the Board of Directors on 29 April 2018 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	Revaluation 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 2016	(Note 32)	(Note 33)	(Note 34)				
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	43,301	6,035,511
Gain on property revaluation	-	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	-	(230,948)	-	296,471	65,523	-	65,523
Total	76,500,000	3,116,161	225,099	7,786,578	87,627,838	94,173	87,722,011
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	3,116,161	2,982,438	5,029,239	107,877,838	94,173	107,972,011
Year ended 31 December 2017							
At start of year	96,750,000	3,116,161	2,982,438	5,029,239	107,877,838	94,173	107,972,011
Profit for the year				4,816,946	4,816,946	1,219	4,818,165
Total comprehensive income for the year	-	-	-	4,816,946	4,816,946	1,219	4,818,165
Transfer to retained earnings	-	(973,357)	-	973,357	-	-	-
Deferred income tax thereon	-	292,007	-	-	292,007	-	292,007
Total	96,750,000	2,434,811	2,982,438	10,819,542	112,986,791	95,392	113,082,183
Transfer to credit risk reserve	-	-	(2,982,438)	2,982,438	-	-	-
At end of year	96,750,000	2,434,811	-	13,801,980	112,986,791	95,392	113,082,183

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Issued capital Ushs'000	Revaluation reserve Ushs'000	Credit risk reserve Ushs'000	Retained earnings Ushs'000	Total equity Ushs'000
Year ended 31 December 2016	(Note 32)	(Note 33)	(Note 34)		
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	-	746,004	-	-	746,004
Total comprehensive income for the year	-	746,004	-	5,819,007	6,565,011
Transfer to retained earnings	-	(230,949)	-	296,471	65,522
Total	76,500,000	3,116,161	225,099	7,484,845	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	3,116,161	2,982,438	4,727,506	107,576,105
Year ended 31 December 2017					
At start of year	96,750,000	3,116,161	2,982,438	4,727,506	107,576,104
Profit for the year	-	-	-	4,810,851	4,810,851
Total comprehensive income for the year	-	-	-	4,810,851	4,810,851
Transfer to retained earnings	-	(973,357)	-	973,357	-
Deferred income tax thereon	-	292,007	-	-	292,007
Total	96,750,000	2,434,811	2,982,438	10,511,714	112,678,962
Transfer from credit risk reserve	-	-	(2,982,438)	2,982,438	-
Transactions with owners:					
At end of year	96,750,000	2,434,811	-	13,494,151	112,678,962

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

	Note	CONSOLIDATED		SEPARATE	
		2017 Ushs'000	2016 Ushs'000	2017 Ushs'000	2016 Ushs'000
Operating activities					
Profit before income tax		6,974,774	7,937,564	6,964,848	7,626,061
Adjustments:					
Depreciation	24	2,895,019	2,507,727	2,893,223	2,505,071
Amortisation of intangible assets	25	2,048,661	2,661,458	2,048,661	2,661,458
Unrealised foreign exchange gain		(1,546,367)	(336,224)	(1,546,367)	(336,224)
Provision on litigation		488,215	1,797,819	488,215	1,797,819
Impairment charge on loans and advances		6,253,779	2,830,954	6,253,779	2,830,954
Profit on disposal of property and equipment		68,489	(9,059)	68,489	(9,059)
Profit before changes in operating assets and liabilities		17,182,570	17,390,239	17,170,848	17,076,080
(Increase) / decrease in cash reserve requirement		(11,416,000)	1,956,000	(11,416,000)	1,956,000
Decrease in deposits due to banking institutions		(3,457,948)	(389,156)	(3,457,948)	(389,156)
Increase in loans and advances		(66,278,027)	(76,717,028)	(66,278,027)	(76,717,028)
Decrease / (increase) in investment in government securities		30,695,777	(9,399,219)	30,695,777	(9,399,219)
Decrease in other assets		1,932,567	1,305,189	1,922,282	1,576,492
Increase/(decrease) in customer deposits		131,544,192	(17,124,400)	131,589,190	(16,902,222)
(Decrease)/increase in BOU refinance loan		(36,921)	16,703	(36,921)	16,703
Increase in other liabilities		(6,890,714)	4,093,251	(6,898,239)	4,070,534
Income taxes paid	23	(2,839,956)	(2,847,699)	(2,823,606)	(2,756,366)
		73,252,970	(99,106,360)	73,296,508	(98,544,263)
Net cash flows generated from/(used in) operating activities		90,435,540	(81,716,120)	90,467,356	(81,468,183)
Investing activities					
Purchase of property and equipment	24	(9,693,439)	(4,710,717)	(9,693,439)	(4,710,717)
Proceeds from sale of property and equipment		54,038	54,038	54,038	54,038
Purchase of intangible assets	25	(333,323)	(216,377)	(333,323)	(216,377)
Net cash flows used in investing activities		(9,972,724)	(4,873,056)	(9,972,724)	(4,873,056)
Financing activities					
Increase in share capital	31	-	20,250,000	-	20,250,000
Net cash flows generated from financing activities		-	20,250,000	-	20,250,000
Cash and cash equivalents at start of year		146,277,375	212,371,231	146,233,918	212,325,156
Net increase/(decrease) in cash and cash equivalents		80,462,816	(66,339,176)	80,494,632	(66,091,239)
Cash and cash equivalents at the end of the year	16	226,740,191	146,277,375	226,728,550	146,233,918



NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Orient Bank Limited (the 'Bank') and its subsidiary Equity Stock Brokers Limited, (together the Consolidated) are incorporated in Uganda under the Companies Act as limited liability companies, and are domiciled in Uganda. The address of its registered office is:

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

The Bank is licensed and regulated by Bank of Uganda under the FIA 2004 as amended by the FIA 2016. For the Companies Act of Uganda, 2012 reporting purposes, the balance sheet is represented by the consolidated and separate statement of financial position and the profit and loss account by the statement of comprehensive income in these consolidated and separate financial statements.

The financial statements for the year ended 31 December 2017 have been approved for issue by the Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards.

2.2 Basis of preparation

The consolidated and separate financial statements have been prepared on a historical cost basis, except the following;

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss 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.

2.3 Basis of consolidation

The consolidated and separate financial statements comprise the financial statements of Orient Bank Limited and its subsidiary, Equity Stock Brokers Limited, made up to 31 December 2017. Control is achieved when the Bank;

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Bank 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 subsidiary to bring their accounting policies into line with the group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Consolidated 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 Consolidated 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.

Non-controlling interests

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

2.4 Changes in accounting policy and disclosures

Amendments to IFRSs that are mandatorily effective for annual periods beginning on or after 1 January 2017

The amendments generally require full retrospective application (i.e. comparative amounts have to be restated), with some amendments requiring retrospective application.

- Amendments to IAS 7 disclosure initiative;
- Amendments to IAS 12 Recognition of Deferred Tax Assets for unrealised losses; and
- Amendments to IFRS 12 included in Annual Improvements to IFRS Standards 2014 – 2016 cycle.

Amendments to IAS 7 Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The amendments apply prospectively.

Entities are not required to present comparative information for earlier periods when they first apply the amendments.

Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017)

The amendments clarify the following:

1. Unrealised losses on a debt instrument measured at fair value for which the tax base remains at cost given rise a deductible temporary difference, irrespective of whether the debt instrument's holders expects to recover the carrying amount

of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;

2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively. The directors consider that there has been no significant impact of the changes on the results for the year ended 31 December 2017.

Amendments to IFRS 12 included in the 2014 – 2016 annual improvements cycle (effective for annual periods beginning on or after 1 January 2017)

The 2014 – 2016 annual improvements cycle includes amendments to a number of IFRSs, one of which is effective for annual periods beginning on or after 1 January 2017. See section 1B below for a summary of the other amendments included in this package that are not yet effective.

Standard	Subject of amendment	Details
IFRS 12 Disclosure of interests in other entities	Clarification of the scope of the Standard	IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal Consolidated that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The amendments apply retrospectively.

There has been no impact from the changes on the financial statements as at 31 December 2017.

New and revised IFRSs that are not mandatorily effective (but allow early application) for the year ending 31 December 2017. Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow early application) for the year ending 31 December 2017*:

- IFRS 9 financial instruments
- IFRS 15 revenue from contracts with customers and the related clarifications
- IFRS 16 leases;
- Amendments to IFRS 2 classification and measurement of share based payment transactions;
- Amendments to IFRS 10 and IAS 28 sale or contribution of Assets between an Investor and its associate or Joint Venture;
- Amendments to IAS 40 transfers of investment property;
- Annual improvements to IFRS 2014 -2016 cycle; and
- IFRS 22 foreign currency transactions and advance consideration

*The IASB has also issued Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts', which is effective for annual periods beginning on or after 1 January 2018; however, it is not applicable to International GAAP Holdings Limited as the Consolidated does not issue any insurance contracts. The Consolidated has not early adopted any of these standards in this issue.

IFRS 9 Financial Instruments (as revised in 2014) (effective for annual periods beginning on or after 1 January 2018)

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised

in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

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

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- All other debt instruments must be measured at FVTPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

- IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk or that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness is no longer required. For more disclosure requirements about an entity's risk management activities have been introduced.

The work on macro hedging by the IASB is still at a preliminary stage – a discussion paper was issued in April 2014 together preliminary views and direction from constituents with a comment period which ended in October 2014. The project is still under analysis at the time of writing.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 at the same time, except for those relating to:

1. The presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply

without applying the other requirements in IFRS 9; and

2. Hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

IFRS 9 contains specific transitional provisions for i) classification and measurement of financial assets; ii) impairment of financial assets; and iii) hedge accounting. Please see IFRS 9 for details.

The Bank is currently in the process of completing its implementation of IFRS 9. Though the Bank has assessed the transitional impact of IFRS 9, the Bank is yet to complete the process of finalizing the transitional impact. The Bank is currently in the final stages and is currently testing for stability and adequate sophistication, and carrying out a parallel run.

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programmes;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 13 Revenue-Barter Transactions involving advertising services

As suggested by the title of the new Revenue Standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

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

The new Revenue Standard introduces a 5 step approach to revenue recognition and measurement:



Far more prescriptive guidance has been introduced by the new Revenue Standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.
- Whether the transaction process allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for 'sale of goods' and 'provision of services' rather the new Standard requires entities to assess whether revenue should be recognised over time or a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services'.
- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, only to the extent that it is highly probable that significant reversals in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- When costs incurred to obtain a contract and costs to fulfil a contract can be recognised as an asset.

In April 2016, the IASB issued clarifications to IFRS 15 in response to feedback received by the IASB/FASB Joint Transition Resource Consolidated for Revenue Recognition, which was formed to address potential issues associated with the implementation of IFRS 15 and the US GAAP equivalent, ASC topic 606. The

Clarification to IFRS 15 clarified the following areas:

- Identify performance obligations; by providing

illustrative factors for consideration in assessing whether the promised goods or services are distinct.

- Principal versus agent considerations; by clarifying that an entity should assess whether it is a principal or agent for each distinct good or service promised to the customer, and by amending and reframing the indicators to assess whether an entity is a principal or agent; and
- Licensing application guidance: in determining whether the license grants customers a right to use the underlying intellectual property ("IP") (which would result in point in time revenue recognition) or a right to access the IP (which would result in revenue recognition over time), an entity is required to determine whether;
 - i. Its ongoing activities are expected to significantly change the form or the functionality of the IP or
 - ii. The ability to the customer to obtain benefit from the IP is substantially derived from or dependent upon those activities.

Directors are yet to quantify the future impact on the financial statements of the entity on the above changes in accounting standards.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 leases;
- IFRIC 4 determining whether an arrangement contains a lease;
- SIC-15 operating leases – incentives; and
- SIC-27 evaluating the substance of transactions involving the legal form of a lease.

Directors are yet to quantify the future impact on the financial statements of the entity on the above changes in accounting standards.

Identification of a lease

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service ➔

☐ transactions on the basis of whether there is an identified asset controlled by the customer. Control is considered to exist if the customer has:

- a. The right to obtain substantially all of the economic benefits from the use of an identified asset, and
- b. The right to direct the use of that asset.

The standard provides detailed guidance to determine whether those conditions are met, including instances where the supplier has substantive substitution rights, and where the relevant decisions about how and for what purpose the asset is used are predetermined.

Directors are yet to quantify the future impact on the financial statements of the entity on the above changes in accounting standards.

Lessee accounting

IFRS 16 introduces significant changes to leases accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right – of – use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

If a lessee elects not to apply the general requirements of IFRS 16 to short-term leases (i.e. one that does not include a purchase option and had a lease term at commencement date of 12 months or less) and leases of low value assets, the lessee should recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, similar to the current accounting for operating leases.

Lessor accounting

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease either as an operating lease or a finance lease. In addition, IFRS 16 also provides guidance on the accounting for sale and leaseback transactions. Extensive disclosure are also required by the new Standard. IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with early application permitted for entities that apply

IFRS 15 at or before the date of initial application of IFRS 16. A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented to opening retained earnings (or other component of equity as appropriate)

Directors are yet to quantify the future impact on the financial statements of the entity on the above changes in accounting standards.

Amendments to IFRS 2 Classification and Management of Share-based Payment Transactions (Effective for manual periods beginning on after 1 January 2018)

The amendments clarify the following:

1. In estimating the fair value of cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulations requires an entity to withhold a specified number of equity instruments equals to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a net settlement feature such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - i. The original liability is derecognised
 - i. The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - i. Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The changes are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. Directors are yet to quantify the future impact on the financial statements of the entity on the above changes in accounting standards.

Amendments of IFRS 10 and IAS 28 Sale or Contribution of Assets between an investor and its Associate or Joint Venture (Effective for annual periods beginning on or after a date to be determined)

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture IAS 28 and IFRS 10 are amended, as follows:

IAS 28 has been amended to reflect the following:

- Gains and losses resulting from transactions involving assets that do not constitute a business between an investor and its associate or joint venture are recognised to the extent of unrelated investors' interest in the associate or joint venture.
- Gains and losses from downstream transactions involving assets that constitute a business between an investor and its associate or joint venture should be recognised in full in the investor's financial statements.

Directors are yet to quantify the future impact on the financial statements of the entity on the above changes in accounting standards.

IFRS 10 has been amended to reflect the following:

Gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the measurement or investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

In December 2015, the IASB postponed the effective date amendment indefinitely pending the outcome of its research project on the equity method of accounting. Earlier application of these amendments is still permitted. Directors are yet to quantify the future impact on the financial statements of the entity on the above changes in accounting standards.

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

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet

the definition of investment property supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties.)

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

Directors are yet to quantify the future impact on the financial statements of the entity on the above changes in accounting standards.

Annual improvements to IFRS 2014-2016 Cycle (Effective for annual periods beginning on or after 1 January 2018)

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below. The package also includes amendments to IFRS 12 Disclosure of interests in Other Entities, which is effective for annual periods beginning on or after 1 January 2018.



Standards	Subject of amendment	Details
IFRS 1 First-time Adoption of International Financial Reporting Standards	Deletion of short –term exemptions for first-time adopters	The amendments delete certain short-term exemptions in IFRS 1 because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable.
IAS 28 Investments in Associates and Joint Ventures	Measuring an associate or joint venture at fair value	The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint venture at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or joint venture. The amendments apply retrospectively with earlier application permitted.

Directors are yet to quantify the future impact on the financial statements of the entity on the below changes in accounting standards.

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

IFRIC 22 addresses how to determine the date of transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application. Directors are yet to quantify the future impact on the financial statements of the entity on the below changes in accounting standards.

2.5 Foreign currency translation

a. Functional and presentation currency

Items included in the consolidated and separate's financial statements are items/transactions measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and separate 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 at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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.

2.6 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.

2.7 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 transactions.

- 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. 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:

- 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').
- 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.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include undelivered 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.

The Derivative instruments are held for non-hedging purposes and are principally executed for other counterparties thus the Consolidated has not applied Hedge accounting.

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:

- 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;
- Those that the Bank upon initial recognition designates as available-for-sale; or
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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 this category are loans and advances to customer

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.

2.8 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.

Effective Interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL

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:

- 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.

2.8.1 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."

2.8.2 Impairment of financial assets

Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or Consolidated of financial assets is impaired. A financial asset or a Consolidated 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 Consolidated 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 Consolidated 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 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 Consolidated of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Consolidated and historical loss experience for assets with credit risk characteristics similar to those in the Consolidated. 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.

- 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 Consolidated and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Consolidated 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:

- Substandard assets with arrears period between 90 and 179 days – 20%;
- Doubtful assets with arrears period between 181 days and 365 days – 50% and
- 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.

2.9 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.

2.10 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.

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and government securities. Cash and cash equivalent exclude the cash reserve requirement held with the Bank of Uganda.

2.11 Property and equipment

Property and equipment comprise mainly office equipment, computer hardware, furniture & fittings and leasehold 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 case 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 between retained earnings and revaluation reserves 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, Strong room & 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 statement of profit or loss in the year the asset is derecognised. Detailed disclosures are provided in Note 25.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss."

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.

2.12 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 benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- 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

- c carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

2.13 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 group's 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.

2.14 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 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.

b. Retirement benefit obligations

The Consolidated contributes to the statutory National Social Security Fund (NSSF) on behalf of its employees. This is a defined contribution scheme registered under the NSSF Act. The group's obligations under the scheme are specific contributions legislated from time to time and are currently limited to 10% of the respective employees' salaries. The group's contributions are charged to the profit or loss in the year in which they relate.

2.15 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.

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.16 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.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Consolidated expects at the end of the reporting period to recover to settle the carrying amounts of its assets and liabilities.

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.

2.17 Dividend payable

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

2.18 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.

2.19 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.

b. The Bank as the lessor

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

2.20 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 Consolidated 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.

2.21 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.

2.22 Dividend income

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

2.23 Acceptances and letters of credit

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

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to other Banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial investment, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date.

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.

3. FINANCIAL RISK MANAGEMENT

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.

Financial Risk Management is overseen by the Risk Department and carried out primarily by the Credit and Treasury Departments. 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 provides reports to the Management and Board Credit Committees

3.1.1 Credit risk measurement

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	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 and other credit enhancements

The Consolidated holds collateral and other credit enhancements to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are regularly updated through the life of the credit facility. Collateral requirements are based on the individual risk rating of borrowers as stipulated in the Bank's policy. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Percentage		Principal type of collateral held
	31 December 2017	31 December 2016	
Derivative assets held for risk management	100%	100%	Cash
Reverse sale and repurchase agreements	100%	100%	Cash
Loans and advances to retail customers			
Secured	29%	43%	
Unsecured	71%	57%	
Loans and advances to corporate customers			
Secured	99%	97%	
Unsecured	1%	3%	

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.

As at 31 December 2017

	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	318,487,259	5,757,188	139,848,746	172,881,325
Total	318,487,259	5,757,188	139,848,746	172,881,325

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

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.

a. 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 expectation 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.

b. 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.

c. 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.

	2017		2016	
	Credit risk exposure	% of impairment provision held per grade	Credit risk exposure	Impairment allowance
Normal	90.85%	0.0%	91.46%	0.0%
Watch	5.18%	0.0%	7.01%	0.0%
Substandard	3.54%	74.3%	0.15%	3.0%
Doubtful	0.33%	17.5%	0.31%	16.0%
Loss	0.1%	8.3%	1.07%	81.0%
	100.00%	100.00%	100.00%	100.0%

3.1.4 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 loans and advances portfolio and debt securities based on the following:

- 96.00% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2016: 98.47%)
- 93.92% of the loans and advances portfolio are considered to be neither past due nor impaired (2016: 91.46%)

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.

3.1.5 Concentration of risks of financial assets with credit risk exposure

Consolidated

	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
At 31 December 2017							
Balances with the Central Bank	61,102,026	-	-	-	-	-	61,102,026
Deposits and balances due from banking institutions	177,248,124	-	-	-	-	-	177,248,124
Loans to Retail customers:	-	35,836,624	62,329,296	84,458,740	-	128,155,416	310,780,076
Government securities – Held-to-maturity	46,654,419	-	-	-	-	-	46,654,419
Government securities – Held-for-trading	1,680,021	-	-	-	-	-	1,680,021
Other assets	-	-	-	-	-	1,929,678	1,929,678
	286,684,590	35,836,624	62,329,296	84,458,740	-	130,085,094	599,394,344
Credit risk exposures relating to off-balance sheet items are as follows:							
LCs, Guarantees and performance bonds	-	17,666,341	25,854,824	9,970,184	-	15,759,796	69,251,145
Loan commitments and other credit related obligations	-	1,160,587	1,688,223	7,455,864	-	19,814,264	30,118,938
	-	18,826,928	27,543,047	17,426,048	-	35,574,060	99,370,083
At 31 December 2016							
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 and advances to customers	-	23,114,327	72,846,661	58,704,032	2,738,200	93,352,608	250,755,828
Government securities – 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	58,704,032	2,738,200	97,231,525	451,844,334
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
	-	12,822,721	59,617,046	16,496,158	201,415	34,118,940	123,256,280

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Financial Risk Management (continued)

3.1 Credit Risk (continued)

3.1.5 Concentration of risks of financial assets with credit risk exposure (continued)

Separate



At 31 December 2017

	Financial institutions Ushs '000	Manufactur- ing 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	11,758,122	-	-	-	-	-	11,758,122
Deposits and balances due from banking institutions	177,236,485	-	-	-	-	-	177,236,485
Loans and advances to customers	-	35,836,624	62,329,296	84,458,740	-	128,155,416	310,780,076
Government securities – Held-to-maturity	46,654,419	-	-	-	-	-	46,654,419
Government securities – Held-for-trading	1,680,021	-	-	-	-	-	1,680,021
Other assets	-	-	-	-	-	1,929,679	1,929,679
	237,329,047	35,836,624	62,329,296	84,458,740	-	130,085,095	550,038,802
Credit risk exposures relating to off-balance sheet items are as follows:							
LCs, Guarantees and performance bonds	-	17,666,341	25,854,824	9,970,184	-	15,759,796	69,251,145
Loan commitments and other credit related obligations	-	1,160,587	1,688,223	7,455,864	-	19,814,264	30,118,938
	-	18,826,928	27,543,047	17,426,048	-	35,574,060	99,370,083

At 31 December 2016

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 and advances to customers	-	35,836,624	62,329,296	84,458,740	-	128,155,416	310,780,076
Government securities – Held-to-maturity	99,870,917	-	-	-	-	-	99,870,917
Other assets	-	-	-	-	-	3,878,919	3,878,919
	197,166,132	35,836,624	62,329,296	84,458,740	-	132,034,335	511,825,127
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
	-	12,822,721	59,617,046	16,496,158	201,415	34,118,940	123,256,280

3.1.6 Loans and advances

3.1.6.1 Loans and advances to customers are summarised as follows as per IAS 39:

	2017 Ushs '000	2016 Ushs '000
Neither past due nor impaired	289,341,691	232,369,619
Past due but not impaired	16,488,700	17,812,218
Individually impaired	12,656,868	3,892,965
Gross	318,487,259	254,074,802
Less: allowance for impairment (Refer to note 33)	(7,707,183)	(3,318,974)
Net	310,780,076	250,755,828

3.1.6.2 Loans and advances are summarised as per statutory risk rating as follows as per the FIA requirements:

	Normal Ushs '000	Watch Ushs '000	Substan- dard Ushs '000	Doubtful Ushs '000	Loss Ushs '000	Total Ushs '000
31 December 2017						
Neither past due nor impaired	289,341,691	-	-	-	-	289,341,691
Past due but not impaired	-	16,488,700	-	-	-	16,488,700
Individually impaired	-	-	11,264,565	1,057,335	334,968	12,656,868
Gross	289,341,691	16,488,700	11,264,565	1,057,335	334,968	318,487,259
Less: allowance for impairment (Refer to note 33)	(3,507,802)	(164,887)	(2,866,228)	(528,097)	(250,566)	(7,317,579)
Net	285,833,889	16,323,813	8,398,337	529,238	84,401	311,169,680
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

The impairment allowances shown in the table above are as per Financial Institutions (Credit Classification and Provisioning) Regulations 2005.

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.

	Retail Ushs '000	Corporate Ushs '000	Total Ushs '000
31 December 2017			
Neither past due nor impaired	64,227,134	225,114,557	289,341,691
Total	64,227,134	225,114,557	289,341,691
31 December 2016			
Neither past due nor impaired	95,924,832	136,444,787	232,369,619
Total	95,924,832	136,444,787	232,369,619

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

a. 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:

	Retail Ushs '000	Corporate Ushs '000	Total Ushs '000
31 December 2017			
Past due but not impaired	2,136,700	14,352,000	16,488,700
Total	2,136,700	14,352,000	16,488,700
31 December 2016			
Past due but not impaired	15,215,067	2,597,151	17,812,218
Total	15,215,067	2,597,151	17,812,218
	2017 Ushs '000		2016 Ushs '000
Less than 30 days	14,170,700		6,046,086
More than 30 days	2,318,000		11,766,132
Total	16,488,700		17,812,218

b. 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 12,656,868 (2016: 3,892,965).

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

	Retail Ushs '000	Corporate Ushs '000	Total Ushs '000
31 December 2017			
Individually impaired	1,964,429	10,692,439	12,656,868
Total	1,964,429	10,692,439	12,656,868
31 December 2016			
Individually impaired	3,361,656	531,309	3,892,965
Total	3,361,656	531,309	3,892,965

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 Consolidated of financial assets since initial recognition, although the decrease cannot yet be identified with the individual assets in the Consolidated, including:
- Adverse changes in the payment status of borrowers in the Consolidated (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 Consolidated (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 Consolidated).

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 Management ALCO and Board ALCO Committees and 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 and ad hoc stress testing, which includes applying possible stress events to specific positions or sectors, or to the Bank's top 5 borrowers.

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 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Consolidated and Separated

	USD Ushs '000	EUR Ushs '000	GBP Ushs '000	Other Ushs '000	Total Ushs '000
At 31 December 2017					
Assets					
Cash and balances with the Central Bank	20,723,278	2,568,727	2,477,233	164,262	25,933,500
Deposits and balances due from banking institutions	107,966,523	1,356,095	2,556,918	63,301	111,942,837
Derivative financial instruments	1,551,136	-	-	-	1,551,136
Investment securities					
– Held-to-maturity	-	-	-	-	-
– Held-for-trading	-	-	-	-	-
Investment in subsidiary					
Loans and advances to customers	177,076,570	8,261	-	180,978	177,265,809
Other assets	90,775	61,060	-	-	151,835
Total financial assets	307,408,282	3,994,143	5,034,151	408,541	316,845,117
Liabilities					
Deposits from banks	-	-	-	-	-
Derivative financial instruments	4,769	-	-	-	4,769
Deposits from customers	255,524,571	3,622,733	4,425,232	1,787	263,574,323
Refinance loans	-	-	-	-	-
Other liabilities	4,956,028	103,050	29,753	17	5,088,848
Total financial liabilities	260,485,368	3,725,783	4,454,985	1,804	268,667,940
Net on-balance sheet financial position	46,922,914	268,360	579,166	406,737	48,177,177
Credit commitments	21,071,014	-	-	9,044,924	30,118,938
At 31 December 2016					
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

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 2017			
(10%)	4,692,291	26,836	57,917
10%	(4,692,291)	(26,836)	(57,917)

	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

ii. Equity

	USD Ushs '000	EUR Ushs '000	GBP Ushs '000
At 31 December 2017			
(10%)	3,284,604	18,785	40,542
10%	(3,284,604)	(18,785)	(40,542)

	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

3.2.2 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Financial Risk Management (continued)

3.2 Market Risk (continued)

3.2.2 Interest rate risk (continued)



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 amounts, categorised by age.

Consolidated

As at 31 December 2017

	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	Interest bearing Ushs '000	Non bearing Ushs '000	Total Ushs '000
Assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	-	93,832,065
Deposits and balances due from banking institutions	166,232,192	-	-	11,015,932	-	-	-	177,248,124
Derivative financial instruments	-	-	-	-	-	-	1,551,136	1,551,136
Government securities	-	-	-	-	-	-	-	-
- Held-to-maturity	319,000	-	9,092,278	37,562,141	-	-	-	46,654,419
- Held-for-trading	62,764,156	20,050,948	1,361,021	-	-	-	-	1,680,021
Loans and advances to customers	-	-	52,934,878	170,951,210	4,078,884	-	-	310,780,076
Other assets	-	-	-	-	-	5,023,610	-	5,023,610
Total financial assets	229,315,348	20,050,948	63,388,176	219,529,283	4,078,884	100,406,811	5,742	636,769,451
Current income tax recoverable	-	-	-	-	-	-	16,896,456	16,896,456
Property and equipment	-	-	-	-	-	-	-	-
Operating lease prepayments	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Deferred income tax asset	-	-	-	-	-	3,275,227	-	3,275,227
Total non-financial assets	-	-	-	-	-	23,990,548	-	23,990,548
Total assets	229,315,348	20,050,948	63,388,176	219,529,283	4,078,884	144,574,784	5,742	680,937,424
Liabilities								
Deposits from banks	155,060	-	-	-	-	-	-	155,060
Derivative financial instruments	-	-	-	-	-	-	4,769	4,769
Deposits from customers	242,295,811	50,867,437	55,264,626	203,605	7,007	206,153,949	-	554,792,435
Refinance loans	-	-	-	83,949	-	-	-	83,949
Other liabilities	-	-	-	-	-	12,818,688	-	12,818,688
Total financial liabilities	242,450,871	50,867,437	55,264,626	287,554	7,007	218,977,406	-	567,854,901
Other liabilities	-	-	-	-	-	-	-	-
Deferred income tax liability	-	-	-	-	-	-	340	340
Total non-financial liabilities	-	-	-	-	-	-	340	340
Total liabilities	242,450,871	50,867,437	55,264,626	287,554	7,007	218,977,746	-	567,855,241
Interest sensitivity gap	(13,135,523)	(30,816,489)	8,123,550	219,241,730	4,071,877	(18,570,595)	-	68,914,550

As at 31 December 2016							
Assets							
	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	Interest bearing Ushs '000	Total Ushs '000
Cash and balances with the Central Bank	-	-	-	-	-	78,291,922	78,291,922
Deposits and balances due from banking institutions	50,849,263	10,952,890	18,266,600	-	-	-	80,068,753
Derivative financial instruments	-	-	-	-	-	376,700	376,700
Government 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	-	-	-	-	-	3,660,027	3,660,027
Total financial assets	104,790,004	75,692,992	49,086,045	194,874,781	6,251,676	82,328,649	513,024,148
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
Intangible assets	-	-	-	-	-	3,918,290	3,918,290
Deferred income tax asset	-	-	-	-	-	22,791,061	22,791,061
Total non-financial assets	-	-	-	-	-	41,192,526	41,192,526
Total assets	104,790,004	75,692,992	49,086,045	194,874,781	6,251,676	123,521,175	554,216,673
Liabilities							
Deposits from banks	3,613,008	-	-	-	-	40,476	3,613,008
Derivative financial instruments	-	-	-	3,045,950	-	184,234,749	40,476
Deposits from customers	169,950,256	14,707,899	51,309,389	-	-	-	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	444,094,388
Other liabilities	-	-	-	-	-	2,149,396	2,149,396
Deferred income tax liability	-	-	-	-	-	879	879
Total non-financial liabilities	-	-	-	-	-	2,150,275	2,150,275
Total liabilities	173,563,264	14,707,899	51,309,389	3,166,820	-	203,497,291	446,244,663
Interest sensitivity gap	(58,763,397)	60,985,092	(2,223,345)	191,707,964	6,251,676	(129,028,229)	68,929,759

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Financial Risk Management (continued)

3.2 Market Risk (continued)

3.2.2 Interest rate risk (continued)



Bank

As at 31 December 2017

Assets

	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	Interest bearing Ushs '000	Non Interest bearing Ushs '000	Total Ushs '000
Cash and balances with the Central Bank	-	-	-	-	-	93,832,065	-	93,832,065
Deposits and balances due from banking institutions	148,016,995	10,952,890	18,266,600	-	-	-	-	177,236,485
Derivative financial instruments	-	-	-	-	-	1,551,136	-	1,551,136
Government securities	-	-	-	-	-	-	-	-
– Held-to-maturity	-	-	9,092,278	37,562,141	-	-	-	46,654,419
– Held-for-trading	319,000	-	1,361,021	-	-	-	-	1,680,021
Loans and advances to customers	62,764,156	20,050,948	52,934,878	170,951,210	4,078,884	-	-	310,780,076
Other assets	-	-	-	-	-	4,898,168	-	4,898,168
Total financial assets	211,100,151	31,003,838	81,654,776	208,513,352	4,078,884	100,281,369	636,632,369	
Investment in subsidiary	-	-	-	-	-	80,000	-	80,000
Property and equipment	-	-	-	-	-	16,895,324	-	16,895,324
Intangible assets	-	-	-	-	-	3,275,227	-	3,275,227
Deferred income tax asset	-	-	-	-	-	23,990,548	-	23,990,548
Total non-financial assets	-	-	-	-	-	44,241,099	44,241,099	
Total assets	211,100,151	31,003,838	81,654,776	208,513,352	4,078,884	144,522,468	680,873,469	

Liabilities

Deposits from banks	155,060	-	-	-	-	-	-	155,060
Derivative financial instruments	-	-	-	-	-	4,769	-	4,769
Deposits from customers	242,295,811	50,867,437	55,264,626	203,605	7,007	206,575,244	-	555,213,730
Refinance loans	-	-	-	83,949	-	-	-	83,949
Other liabilities	-	-	-	-	-	12,736,999	-	12,736,999
Total financial liabilities	242,450,871	50,867,437	55,264,626	287,554	7,007	219,317,012	568,194,507	
Other liabilities	-	-	-	-	-	-	-	-
Total non-financial liabilities	-	-	-	-	-	-	-	
Total liabilities	242,450,871	50,867,437	55,264,626	287,554	7,007	219,317,012	568,194,507	
Interest sensitivity gap	(31,350,720)	(19,863,599)	26,390,150	208,225,798	4,071,877	(119,035,643)	68,437,862	

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

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 2017		
(10%)	(3,485,473)	(2,439,831)
10%	3,485,473	2,439,831
At 31 December 2016		
(10%)	(3,245,983)	(2,272,188)
10%	3,245,983	2,272,188

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.

Consolidated**As at 31 December 2017**

	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
Assets						
Cash and balances with the Central Bank	93,832,065	-	-	-	-	93,832,065
Deposits and balances due from banking institutions	166,232,192	-	11,015,932	-	-	177,248,124
Derivative financial assets	1,551,136	-	-	-	-	1,551,136
Governments Securities						
– Held-to-maturity	-	-	9,092,278	37,562,141	-	46,654,418
– Held-for-trading	319,000	-	1,361,021	-	-	1,680,021
Loans and advances to customers	62,764,156	20,050,948	52,934,878	170,951,210	4,078,884	310,780,076
Other assets	5,023,610	-	-	-	-	5,023,610
Total financial assets	329,722,159	20,050,948	74,404,109	208,513,351	4,078,883	636,769,450
Liabilities						
Deposits from banks	155,060	-	-	-	-	155,060
Derivative financial instruments	4,769	-	-	-	-	4,769
Deposits from customers	448,449,760	50,867,437	55,264,626	203,605	7,007	554,792,435
Refinance loans	-	-	-	83,949	-	83,949
Other liabilities	12,818,688	-	-	-	-	12,818,688
Total financial liabilities	461,428,277	50,867,437	55,264,625	287,555	7,007	567,854,901
On-balance sheet liquidity gap	(131,706,118)	(30,816,489)	19,139,484	208,225,796	4,071,876	68,914,549
Off-balance sheet items						
Loan commitments	7,624,535	22,494,403	-	-	-	30,118,938
Guarantees	8,218,581	4,645,352	11,233,796	2,703,817	-	26,801,546
Performance bonds	1,446,214	493,722	391,539	-	-	2,331,475
Letters of credit	24,898,638	7,241,764	7,977,719	-	-	40,118,121
Total off-balance sheet items	42,187,968	34,875,241	19,603,054	2,703,817	-	99,370,080
Net Liquidity gap	(173,894,086)	(65,691,730)	(463,570)	205,521,979	4,071,876	(30,455,531)

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Financial Risk Management (continued)

3.3 Liquidity Risk (continued)

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



Consolidated

As at 31 December 2016

Assets

	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
Cash and balances with the Central Bank	78,291,922	-	-	-	-	78,291,922
Deposits and balances due from banking institutions	80,068,753	11,157,481	-	-	-	80,068,753
Derivative financial instruments	376,700	-	-	-	-	376,700
Investment securities						-
– Held-to-maturity	19,710,371	41,221,925	25,292,217	12,546,921	1,166,373	99,904,362
– Held-for-trading	-	-	-	-	-	-
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	216,371,589	75,897,583	30,819,445	236,611,896	7,660,797	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	(158,538,691)	61,189,684	(20,489,944)	232,736,941	7,660,797	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	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 Liquidity gap	(215,187,727)	52,222,059	(63,913,414)	218,857,017	7,660,797	(11,552,197)

Bank**As at 31 December 2017**

	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
Assets						
Cash and balances with the Central Bank	93,832,065	-	-	-	-	93,832,065
Deposits and balances due from banking institutions	166,220,553	-	11,015,932	-	-	177,236,485
Derivative financial assets	1,551,136	-	-	-	-	1,551,136
– Held-to-maturity	-	-	9,092,278	37,562,141	-	46,654,419
– Held-for-trading	319,000	-	1,361,021	-	-	1,680,021
Loans and advances to customers	62,764,156	20,050,948	52,934,878	170,951,210	4,078,884	310,780,076
Other assets	4,898,168	-	-	-	-	4,898,168
Total financial assets	329,585,078	20,050,948	74,404,109	208,513,351	4,078,884	636,632,370
Liabilities						
Deposits from banks	155,060	-	-	-	-	155,060
Derivative financial instruments	4,769	-	-	-	-	4,769
Deposits from customers	448,028,465	50,867,437	55,264,626	203,605	7,007	555,213,730
Refinance loans	-	-	-	83,949	-	83,949
Other liabilities	12,736,999	-	-	-	-	12,736,999
Total financial liabilities	461,605,030	50,867,437	55,264,625	287,554	7,007	568,194,507
On-balance sheet liquidity gap	(132,019,952)	(30,816,489)	19,139,484	208,225,797	4,071,877	68,437,863
Off-balance sheet items						
Loan commitments	7,624,536	22,494,403	-	-	-	30,118,938
Guarantees	8,218,581	4,645,352	11,233,797	2,703,817	-	26,801,546
Performance bonds	1,446,214	493,723	391,539	-	-	2,331,475
Letters of credit	24,898,638	7,241,765	7,977,719	-	-	40,118,121
Total off-balance sheet items	42,187,969	34,875,242	19,603,055	2,703,817	-	99,370,080
Net Liquidity gap	(174,207,921)	(65,691,731)	(463,571)	205,521,980	4,071,877	(30,932,217)

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Financial Risk Management (continued)

3.3 Liquidity Risk (continued)

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



Bank

As at 31 December 2016

Assets

	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
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
Investment securities	-	-	-	-	-	-
– Held-to-maturity	19,676,926	41,221,925	25,292,217	12,546,921	1,166,373	99,904,362
– Held-for-trading	-	-	-	-	-	-
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 Liquidity gap	(226,483,670)	52,222,058	(63,913,416)	218,857,017	7,660,796	(11,657,212)

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 the central bank;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with the central bank; 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 2016 and 2017 respectively.

Consolidated

As at 31 December 2017	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
Assets				
Cash and balances with Central Bank	93,832,065	93,832,065	-	93,832,065
Deposits and balances due from banking institutions	177,248,124	177,248,124	-	177,248,124
Derivative financial instruments	1,551,136	1,551,136	-	1,551,136
Government securities – Held-to-maturity	46,654,419	9,092,278	37,562,141	46,654,419
Government securities – Held-for-trading	1,680,021	1,680,021	-	1,680,021
Loans and advances to customers	310,780,076	135,749,982	175,030,094	310,780,076
Other assets	5,023,610	5,023,610	-	5,023,610
Current income tax recoverable	5,742	5,742	-	5,742
Property and equipment	16,896,456	-	16,896,456	16,896,456
Intangible assets	3,275,227	-	3,275,227	3,275,227
Deferred income tax asset	23,990,547	-	23,990,547	23,990,547
Total Assets	680,937,424	424,182,958	256,754,466	680,937,424
Liabilities				
Deposits due to other banks	155,060	155,060	-	155,060
Derivative financial instruments	4,769	4,769	-	4,769
Customer deposits	554,792,435	554,581,823	210,612	554,792,435
Refinance loans	83,949	-	83,949	83,949
Other liabilities	12,819,906	12,819,906	-	12,819,906
Deferred income tax liability	340	-	340	340
Total Liabilities	567,855,241	567,560,340	294,901	567,855,241

As at 31 December 2016	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
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
Intangible assets	3,918,290	-	3,918,290	3,918,290
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
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

3.4 Fair value of financial instruments

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 refinance loans are measured at cost.

iv. Other liabilities

The fair value of the other liabilities is computed through computing the present value of the cash flows using the weighted average cost of capital of the bank.

a) 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 2017	Level 1 Ushs '000	level 2 Ushs '000	Level 3 Ushs '000	Total Ushs '000
Assets measured at fair value				
Cash and balances with Central Bank	-	-	93,832,065	93,832,065
Deposits and balances due from banking institutions	-	-	177,236,485	177,236,485
Derivative financial assets	-	-	1,551,136	1,551,136
Government securities – Held-to-maturity	-	-	62,489,718	62,489,718
Government securities – Held-for-trading	-	2,141,975	-	2,141,975
Investment in subsidiary	-	-	80,000	80,000
Loans and advances to customers	-	-	390,009,588	390,009,588
Other assets	-	-	4,898,168	4,898,168
	-	2,141,975	730,097,160	732,239,134
Liabilities measured at fair value				
Customer deposits	-	-	573,624,855	573,624,855
Deposits due to other banks	-	-	145,951	145,951
Derivative financial instruments	-	-	169,990	169,990
Refinance loans	-	-	83,949	83,949
Other liabilities	-	-	12,736,999	12,736,999
	-	-	586,761,743	586,761,743

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				
Cash and balances with Central Bank	-	-	78,291,922	78,291,922
Deposits and balances due from banking institutions	-	-	80,025,296	80,025,296
Derivative financial assets	-	-	376,700	376,700
Government securities – Held-to-maturity	-	-	99,870,917	99,870,917
Government securities – Held-for-trading	-	-	-	-
Investment in subsidiary	-	-	80,000	80,000
Loans and advances to customers	-	-	250,755,828	250,755,828
Other assets	-	-	6,269,441	6,269,441
Current income tax recoverable	-	-	204,305	204,305
	-	-	515,874,409	515,874,409
Liabilities measured at fair value				
Customer deposits	-	-	555,213,730	555,213,730
Deposits due to other banks	-	-	155,060	155,060
Derivative financial instruments	-	-	4,769	4,769
Refinance loans	-	-	83,949	83,949
Other liabilities	-	-	12,736,999	12,736,999
	-	-	568,194,507	568,194,507

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 Financial Institutions Act 2004;
- 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 2004 regulations.

The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital is managed by its Bank Treasury and comprises two tiers:

- **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:** Revaluation reserve general provisions for bad debts

The risk weighted assets are measured by means risk weights. Risk weights are assigned to assets and off balance sheet items according to the Financial Institutions Regulations 2005.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2017 and 2016. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

	2017 Ushs '000	2016 Ushs '000
Tier 1 capital		
Share capital	96,750,000	96,750,000
Retained earnings	13,494,151	4,727,505
Less: Intangible assets	(3,275,227)	(3,918,290)
Less: Deferred income tax asset	(23,990,548)	(22,791,061)
Less: Unrealized foreign exchange gains	(1,546,367)	(336,224)
Less: Investment in subsidiary	(80,000)	(80,000)
Total qualifying Tier 1 capital	81,352,009	74,351,929
Tier 2 capital		
Revaluation reserve	2,434,811	3,116,160
General provisions	3,672,689	3,357,070
Total qualifying Tier 2 capital	6,107,500	6,473,230
Total regulatory capital	87,459,509	80,825,158
Risk-weighted assets:		
On-balance sheet	394,140,136	296,231,630
Off-balance sheet	51,050,377	70,667,933
Total risk-weighted assets	445,190,513	366,899,563
Core capital ratio	18.27%	20.26%
Total capital ratio	19.65%	22.03%

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

	Nominal statement of financial position amounts		Risk Weight	Risk weighted amounts	
	2017 Shs '000	2016 Shs '000		2017 Shs '000	2016 Shs '000
Balance sheet assets (net of provisions)					
Cash and balances with Central Bank	93,832,065	78,291,922	0%	-	-
Deposits and balances due from banking institutions	130,392,122	56,611,983	20%	26,078,424	13,324,369
Due from banks outside Uganda with long-term ratings as follows;					
Rated AAA to AA(-)	169,316	169,572	20%	33,863	33,914
Rated A (+) to A (-)	30,204,159	17,622,863	50%	15,102,080	8,811,432
Rated A (-) to non-rated	16,470,888	5,620,878	100%	16,470,888	5,620,878
Government securities – Held-to-maturity	46,654,419	99,870,917	0%	-	-
Government securities – Held-for-trading	1,680,021	-	0%	-	-
Loans and advances to customers	314,661,390	250,633,336	100%	314,661,390	250,633,336
Investment in subsidiary	80,000	80,000	0%	-	-
Property and equipment	16,895,324	11,538,262	100%	16,895,324	11,538,262
Other assets	4,898,168	6,269,439	100%	4,898,168	6,269,439
Current income tax recoverable		204,305	0%	-	
Total assets	655,937,872	526,913,477		394,140,137	296,231,630
Off-balance sheet positions					
Performance bonds	2,331,475	2,783,527	50%	1,165,738	1,391,764
Guarantees	26,801,546	49,929,030	100%	26,801,546	49,929,030
Letters of credit	40,118,121	52,522,033	20%	8,023,624	10,504,407
Foreign currency contracts	1,546,367	336,224	0%	-	-
Unutilised commitments	30,118,938	17,685,465	50%	15,059,469	8,842,733
	100,916,447	123,256,279		51,050,376	70,667,932
Total risk-weighted assets	756,854,319	650,169,756		445,190,513	366,899,562

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

	2017 Shs '000	2016 Shs '000
Gross loans and advances (note 21)	318,487,259	254,074,802
Less Interest Suspended	(180,979)	(497,126)
Less Specific Provisions (note 33)	(3,644,890)	(2,944,341)
Net loans and advances	314,661,390	250,633,336

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 Consolidated, or national or local economic conditions that correlate with defaults on assets in the Consolidated. 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 21.

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 under 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.

d. Property, plant and equipment

The bank carries its buildings at revalued amounts, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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. The Bank determined that as at 31 December 2017.

5. INTEREST INCOME AND INTEREST EXPENSES

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Interest income				
Loans and advances	41,561,892	32,710,396	41,561,892	32,710,396
Deposits and balances due from banking institutions	5,627,374	2,840,857	5,627,374	2,840,857
	47,189,266	35,551,253	47,189,266	35,551,253
Government securities-Held to maturity	9,260,775	14,759,829	9,260,775	14,759,829
Government securities-Held for trading	12,910	-	12,910	-
	56,462,951	50,311,082	56,462,951	50,311,082
Interest expense				
Deposits from banks	368,445	720,716	368,445	720,716
Deposits from customers	21,235,030	17,119,791	21,235,030	17,119,791
BOU refinance schemes	4,745	10,747	4,745	10,747
	21,608,220	17,851,254	21,608,220	17,851,254

The effective interest rate for loans and advance is 13.1% (2016:12.8%). The effective interest rate for deposits is 3.8% (2016: 4.0%). The effective interest rate for government securities is 18.5% (2016: 14.8%).

6. NET FEE AND COMMISSION INCOME

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Fee and commission income				
Credit related fees and commissions	4,341,761	2,362,019	4,341,761	2,362,019
Commission income	12,267,177	13,672,795	12,267,177	13,672,795
Commission on trade	116,551	459,687	-	-
Other operating income	3,373,791	3,600,959	3,302,506	3,559,182
	20,099,280	20,095,460	19,911,444	19,593,996

7. NET FOREIGN EXCHANGE GAINS

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Unrealised exchange gain	1,546,367	336,224	1,546,367	336,224
Realised exchange gains	2,216,481	3,685,424	2,216,481	3,685,424
	3,762,848	4,021,648	3,762,848	4,021,648



8. LOAN IMPAIRMENT CHARGES

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Loans and advances to customers (Note 21)				
Net Increase in impairment	6,253,779	2,830,954	6,253,779	2,830,954
	6,253,779	2,830,954	6,253,779	2,830,954
- identified	5,195,545	302,967	5,195,545	302,967
- unidentified	1,058,234	2,527,987	1,058,234	2,527,987
	6,253,779	2,830,954	6,253,779	2,830,954

9. EMPLOYEE BENEFITS EXPENSES

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Salaries	13,402,216	12,257,225	13,305,196	12,160,205
National Social Security Fund contributions	1,308,883	1,232,174	1,299,181	1,222,472
Other staff costs	2,367,756	1,493,319	2,362,614	1,477,178
Defined contribution fund	731,403	717,173	731,403	717,173
	17,810,258	15,699,891	17,698,394	15,577,028

10. GENERAL AND ADMINISTRATIVE EXPENSES

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
IT and software costs	2,591,840	2,177,009	2,591,840	2,177,009
Occupancy, furniture and equipment	5,724,331	5,649,500	5,724,331	5,649,500
Marketing and public relations	1,227,981	840,433	1,225,431	838,143
Travel and entertainment	38,765	78,808	38,765	78,808
Telecommunication and postage	1,268,750	1,367,727	1,266,350	1,365,327
Other administrative expenses	1,452,861	1,346,066	1,452,861	1,346,066
	12,304,528	11,459,543	12,299,578	11,454,853

11. DEPRECIATION AND AMORTISATION

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Depreciation of property and equipment (Note 24)	2,895,019	2,507,727	2,893,223	2,505,071
Amortisation of intangible assets (Note 25)	2,048,661	2,661,458	2,048,661	2,661,458
	4,943,680	5,169,185	4,941,884	5,166,529

12. OTHER OPERATING EXPENSES

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Audit and other professional fees	130,000	155,900	130,000	155,900
Reversal of charges*	1,755,728	1,036,776	1,755,728	1,036,776
Other general expenses	8,544,112	12,287,123	8,484,812	12,227,371
Depreciation and amortisation (note 11)	4,943,680	5,169,185	4,941,884	5,166,529
	15,373,520	17,612,208	15,312,424	18,586,576

*Reversal of charges relates to concessions given to customers and reversal of charges on overdrawn accounts.

13. INCOME TAX

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Current income tax				
Current income tax	3,151	244,429	-	150,309
Income tax on government securities	2,823,606	2,756,366	2,823,606	2,756,366
Prior year overstated income tax receivable	204,305	-	204,305	-
Deferred tax				
Current year	(908,017)	(1,930,883)	(907,478)	(1,931,762)
Prior year under provision	-	832,141	-	832,141
Prior year under-provision	33,564	-	33,564	-
Income tax expense	2,156,609	1,902,053	2,153,997	1,807,054

The tax on the consolidated profit before income tax differs from the theoretical amount as follows:

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Profit before income tax	6,974,774	7,937,564	6,964,848	7,626,061
Tax calculated at the tax rate of 30% (2016: 30%)	2,092,432	2,381,269	2,089,454	2,287,818
Effect of:				
- Final tax on government securities	2,823,606	2,756,366	2,823,606	2,756,366
- Prior year tax under provision	204,305	832,141	204,305	832,141
- Permanent difference	(247,901)	-	(247,901)	-
- Income not subject to tax (Tbills + T bonds)	(2,782,106)	(4,220,251)	(2,782,106)	(4,219,582)
- Prior year under provision of deferred tax in subsidiary	-	1,548	-	-
Prior year under-provision	33,564	-	33,564	-
- Expenses not deductible for tax purposes	32,708	150,980	33,073	150,311
Income tax expense	2,156,609	1,902,053	2,153,997	1,807,054

The effective tax rate for 2017 is 31% (2016: 24%).



14. FINANCIAL INSTRUMENTS BY CATEGORY

Consolidated

	Amortised cost Ushs '000	Held to maturity Ushs '000	Held at fair value through profit or loss Ushs '000	Financial liabilities at amortised cost Ushs '000	Total Ushs '000
At 31 December 2017					
Financial assets					
Cash and bank balances with the Central Bank	93,832,065	-	-	-	93,832,065
Deposits and balances due from banking institutions	177,248,124	-	-	-	177,248,124
Derivative financial instruments	-	-	1,551,136	-	1,551,136
Government securities; Held-to-maturity	-	46,654,419	-	-	46,654,419
Government securities; Held-for-trading	-	-	1,680,021	-	1,680,021
Loans and advances to customers	310,780,076	-	-	-	310,780,076
Other assets	5,023,610	-	-	-	3,660,027
	586,883,875	46,654,419	3,231,157	-	636,769,451
Financial liabilities at amortised cost					
Deposits from banks	-	-	-	155,060	155,060
Deposits from customers	-	-	-	554,792,435	554,792,435
Derivative financial instruments	-	-	4,769	-	4,769
Refinance loans	-	-	-	83,949	83,949
Current income tax payable	-	-	-	-	-
Other liabilities	-	-	-	12,818,688	12,818,688
	-	-	4,769	567,850,132	567,854,901
At 31 December 2016					
Financial assets					
Cash and bank balances with the Central Bank	78,291,922	-	-	-	78,291,922
Deposits and balances due from banking institutions	80,068,753	-	-	-	80,068,753
Derivative financial instruments	-	-	376,700	-	376,700
Government securities – Held-to-maturity	-	99,870,917	-	-	99,870,917
Government securities – Held-for-trading	-	-	-	-	-
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 at amortised cost					
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

Bank

	Amortised cost Ushs '000	Held to maturity Ushs '000	Held at fair value through profit or loss Ushs '000	Financial liabilities at amortised cost Ushs '000	Total Ushs '000
At 31 December 2017					
Financial assets					
Cash and bank balances with the Central Bank	93,832,065	-	-	-	93,832,065
Deposits and balances due from banking institutions	177,236,485	-	-	-	177,236,485
Derivative financial instruments	-	-	1,551,136	-	1,551,136
Government securities; Held-to-maturity	-	46,654,419	-	-	46,654,419
Government securities; Held-for-trading	-	-	1,680,021	-	1,680,021
Loans and advances to customers	310,780,076	-	-	-	310,780,076
Other assets	4,898,168	-	-	-	4,898,168
	586,746,793	46,654,419	3,231,157	-	636,632,370
Financial liabilities at amortised cost					
Deposits from banks	-	-	-	155,060	155,060
Deposits from customers	-	-	-	555,213,730	555,213,730
Derivative liabilities	-	-	4,769	-	4,769
Refinance loans	-	-	-	83,949	83,949
Current income tax payable	-	-	-	-	-
Other liabilities	-	-	-	12,736,999	12,736,999
	-	-	4,769	568,189,738	568,194,507
At 31 December 2016					
Financial assets					
Cash and bank balances with the Central Bank	78,291,922	-	-	-	78,291,922
Deposits and balances due from banking institutions	80,025,296	-	-	-	80,025,296
Derivative financial instruments	-	-	376,700	-	376,700
Government securities; Held-to-maturity	-	99,870,917	-	-	99,870,917
Government securities; Held-for-trading	-	-	-	-	-
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

15. CASH AND BALANCES WITH CENTRAL BANK

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Cash in hand	32,730,039	28,098,003	32,730,039	28,098,003
Balances with the Central bank other than mandatory reserve deposits	11,758,122	7,260,056	11,758,122	7,260,056
Included in cash and cash equivalents (Note 17)	44,488,161	35,358,059	44,488,161	35,358,059
Mandatory reserve deposits with Central Bank	44,340,000	32,924,000	44,340,000	32,924,000
Repurchase agreements	5,003,904	10,009,863	5,003,904	10,009,863
	93,832,065	78,291,922	93,832,065	78,291,922

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 2017 was Ushs: 44,340 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.

16. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated and separate statement of cash flows, cash and cash equivalents include:

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Cash and balances with the Central Bank (Note 15)	44,488,161	35,358,059	44,488,161	35,358,059
Deposits and balances due from banking institutions (Note 17)	177,248,124	80,068,753	177,236,485	80,025,295
Repurchase agreements	5,003,904	10,009,863	5,003,904	10,009,863
Treasury bills maturing within 90 days (Note 19)	-	20,840,700	-	20,840,700
	226,740,189	146,277,375	226,728,550	146,233,918

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 44.34 billion (2016: Ushs 32.92 billion).

17. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Balances due from other banking institutions	59,515,528	44,138,166	59,503,889	44,094,709
Placements with other banks	117,732,596	35,930,587	117,732,596	35,930,587
	177,248,124	80,068,753	177,236,485	80,025,296

18. DERIVATIVE FINANCIAL INSTRUMENTS

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 amount value asset Ushs '000	Notional amount assets Ushs '000	Carrying amount value liabilities Ushs '000	Notional amount liabilities Ushs '000
At 31 December 2017				
Derivatives held for trading				
Foreign exchange contracts	1,551,136	44,414,570	4,769	42,868,203
Total	1,551,136	44,414,570	4,769	42,868,203
At 31 December 2016				
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

Government securities

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Securities held-to-maturity				
Treasury bills				
Face value				
Maturing within 90 days	-	20,840,700	-	20,840,700
Maturing after 90 days	8,500,000	43,000,000	8,500,000	43,000,000
	8,500,000	63,840,700	8,500,000	63,840,700
Unearned interest	(592,278)	(4,258,622)	(592,278)	(4,258,622)
	7,907,722	59,582,078	7,907,722	59,582,078
Treasury Bonds				
Face value				
Maturing within 90 days	-	-	-	-
Maturing between 90 and 365 days	-	33,865,480	-	33,865,480
Maturing after 365 days	46,754,059	13,679,848	46,754,059	13,679,848
	46,754,059	47,545,328	46,754,059	47,545,328
Unearned interest	(8,007,362)	(7,256,489)	(8,007,362)	(7,256,489)
	38,746,697	40,288,839	38,746,697	40,288,839
Total securities held to maturity	46,654,419	99,870,917	46,654,419	99,870,917



19. SECURITIES HELD-TO-TRADE

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Face value				
Maturing within 90 days	-	-		
Maturing after 90 days	1,821,012	-	-	-
	1,821,012	-	1,821,012	-
Unearned interest	(140,991)	-	1,821,012	-
Total securities held for trading	1,680,021	-	(140,991)	-

20. INVESTMENT IN SUBSIDIARY

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Equity securities – at cost:				
– Equity Stock Brokers Limited	-	-	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% (2016: 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 2017 is Ushs. 1.2mn (2016: Ushs 43.3mn). The accumulated non-controlling interest is Ushs. 95.4mn (2016: Ushs 94.1mn).

Summary of Equity Stock Brokers Limited's financial statements

	2017 Ushs 'mn	2016 Ushs 'mn
Total assets	565	558
Total liabilities	77	76
Revenue	188	501
Profit after tax	6	217

21. LOANS AND ADVANCES TO CUSTOMERS

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Retail				
- Overdrafts	7,978,860	1,880,069	7,978,860	1,880,069
- Term loans	57,821,415	112,621,486	57,821,415	112,621,486
Retail	65,800,276	41,884,777	65,800,276	41,884,777
Corporate				
- Overdrafts	60,445,411	37,887,893	60,445,411	37,887,893
- Term loans	192,241,572	101,685,355	192,241,572	101,685,355
Corporate	252,686,983	139,573,247	252,686,983	139,573,247
	318,487,259	254,074,802	318,487,259	254,074,802

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Gross loans and advances to customers	318,487,259	254,074,802	318,487,259	254,074,802
Less: allowance for impairment	(7,707,183)	(3,318,974)	(7,707,183)	(3,318,974)
Net loans and advances to customers	310,780,076	250,755,828	310,780,076	250,755,828

Gross advances to customers by industry composition:

- Trade and commerce	84,458,739	58,667,114	84,458,739	58,667,114
- Agriculture	58,818,125	39,149,700	58,818,125	39,149,700
- Manufacturing	35,836,624	23,114,327	35,836,624	23,114,327
- Transport & communication	16,706,999	14,223,992	16,706,999	14,223,992
- Building and construction	62,329,296	72,828,900	62,329,296	72,828,900
- Personal, service industry and others	60,337,476	46,090,769	60,337,476	46,090,769
Gross advances to customers	318,487,259	254,074,802	318,487,259	254,074,802

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

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
At 1 January	3,318,974	4,709,112	3,318,974	4,709,112
Increase in the provision for loan impairment;				
-Individually assessed as Per IAS 39	5,195,545	302,967	5,195,545	302,967
-Collectively assessed as Per IAS 39	1,058,234	2,527,987	1,058,234	2,527,987
Restatement of the previously written off provision on specific write offs	2,416,362	-	2,416,362	-
Write offs during the year	(3,533,258)	(4,221,093)	(3,533,258)	(4,221,093)
At 31 December	7,707,183	3,318,974	7,707,183	3,318,974
Identified Impairment	4,120,962	790,987	4,120,962	790,987
Unidentified Impairment	3,586,221	2,527,987	3,586,221	2,527,987
	7,707,183	3,318,974	7,707,183	3,318,974

Charge to the statement of comprehensive income

Net increase in the provision for loan impairment	6,253,779	2,830,954	6,253,779	2,830,954
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The Bank holds the following collateral as security for its loans and advances: buildings, land, deposits, margins accounts, plant, machinery and stock among others.

22. OTHER ASSETS

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Prepayments	3,093,931	2,526,246	2,968,488	2,390,520
Other receivables	1,929,679	3,878,918	1,929,680	3,878,921
	5,023,610	6,405,164	4,898,168	6,269,441

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.

23. CURRENT INCOME TAX PAYABLE / (RECOVERABLE)

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Balance as at 1 January	(196,847)	(349,942)	(204,305)	(354,615)
Write off of opening receivable	204,305	-	204,305	-
Prior year under-provision	34,532	-	34,532	-
Current tax charge	2,792,224	3,000,795	2,789,073	2,906,676
Tax paid - current year	(2,839,956)	(2,847,699)	(2,823,606)	(2,756,366)
Balance as at 31 December	(5,742)	(196,846)	-	(204,305)

24. PROPERTY AND EQUIPMENT

Consolidated

	Land Ushs'000	Buildings Ushs'000	Leasehold improvements Ushs'000	Furniture, Fixtures, Strong room & Safes Ushs'000	Computer Equipment, ATM, POS & SWIFT Ushs'000	Motor vehicles Ushs'000	Office Equipment Ushs'000	Work In Progress Ushs'000	Total Ushs'000
COST or VALUATION									
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
At 1 January 2017	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
Additions	-	-	95,337	41,549	311,020	-	580,301	8,665,233	9,693,439
Disposals	-	-	(8,573)	(194,867)	(33,113)	(1,245)	(116,425)	-	(354,222)
Transfer from WIP	374,098	-	388,360	150,385	2,600,748	-	59,568	(3,573,160)	-
WIP write off during the year	-	-	-	-	-	-	-	(279,852)	(279,852)
Transfer to intangibles (note 26)	-	-	-	-	-	-	-	(1,072,303)	(1,072,303)
Reclassification	1,065,000	(1,065,000)	-	(41,084)	(3,165)	-	44,249	-	-
At 31 December 2017	2,485,750	4,060,000	5,257,124	3,169,387	11,824,534	829,958	6,593,487	4,545,284	38,765,526

	Land Ushs'000	Buildings Ushs'000	Leasehold improvements Ushs'000	Furniture, Fixtures, Strong room & Safes Ushs'000	Computer Equipment, ATM, POS & SWIFT Ushs'000	Motor vehicles Ushs'000	Office Equipment Ushs'000	Work In Progress Ushs'000	Total Ushs'000
ACCUMULATED DEPRECIATION									
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	634,321	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
At 1 January 2017	671,578	416,125	2,804,905	2,211,873	8,227,779	663,518	4,241,493	-	19,237,271
Charge for the year	116,489	284,200	577,748	220,749	942,877.48	96,085	656,871	-	2,895,019
Reclassification	61,398	(61,979)	-	(31,907)	(3,164)	-	35,071	-	(581)
Eliminated on disposal	-	-	(7,668)	(127,493)	(32,702)	(1,245)	(94,117)	-	(263,224)
Elimination of accumulated depreciation	-	-	-	-	-	-	-	-	-
At 31 December 2017	849,465	638,346	3,374,985	2,273,223	9,134,791	758,358	4,839,900	-	21,869,066
NET CARRYING AMOUNT									
At cost	1,636,285	-	1,882,139	896,164	2,689,743	71,600	1,753,587	4,545,284	13,474,802
At valuation	-	3,421,654	-	-	-	-	-	-	3,421,654
At 31 December 2017	1,636,285	3,421,654	1,882,139	896,164	2,689,743	71,600	1,753,587	4,545,284	16,896,456
At 31 December 2016	375,074	4,708,875	1,977,096	1,001,531	721,265	167,685	1,784,301	805,366	11,541,193

Work in progress relates to infrastructure for the mobile application, firewall and server that are being installed. The work in progress relates to items that were not capitalised and expensed off during the current period. In 2017, the transfers out of work in progress included items that were not capitalised and expensed to the profit and loss, as well as transferred to intangible assets of Ushs ('000) 3,311,721.



Bank

	Land Ushs'000	Buildings Ushs'000	Leasehold improvements Ushs'000	Furniture, Fixtures, Strong room & Safes Ushs'000	Computer Equipment, ATM, POS & SWIFT Ushs'000	Motor vehicles Ushs'000	Office Equipment Ushs'000	Work In Progress Ushs'000	Total Ushs'000
COST or VALUATION									
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
At 1 January 2017	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
Additions	-	-	95,337	41,549	311,020	-	580,301	8,665,233	9,693,439
Disposals	-	-	(8,573)	(194,867)	(33,113)	(1,245)	(116,425)	-	(354,222)
Transfer from WIP	374,098	-	388,360	150,385	2,600,748	-	59,568	(3,573,160)	-
WIP write off during the year	-	-	-	-	-	-	-	(279,852)	(279,852)
Transfer to intangibles (note 26)	-	-	-	-	-	-	-	(1,072,303)	(1,072,303)
Reclassification	1,065,000	(1,065,000)	-	(41,084)	(3,165)	-	44,249	-	-
At 31 December 2017	2,485,750	4,060,000	5,257,123	3,169,387	11,813,289	829,958	6,593,487	4,545,284	38,754,280

	Land Ushs'000	Buildings Ushs'000	Leasehold improvements Ushs'000	Furniture, Fixtures, Strong room & Safes Ushs'000	Computer Equipment, ATM, POS & SWIFT Ushs'000	Motor vehicles Ushs'000	Office Equipment Ushs'000	Work In Progress Ushs'000	Total Ushs'000
ACCUMULATED DEPRECIATION									
At 1 January 2016	631,217	883,176	2,257,940	2,010,516	7,616,988	965,840	3,858,817	-	18,224,494
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
At 1 January 2017	671,578	416,125	2,804,905	2,211,872	8,219,464	663,518	4,241,493	-	19,228,955
Charge for the year	116,489	284,200	577,748	220,749	941,081	96,085	656,871	-	2,893,223
Reclassification	61,398	(61,979)	-	(31,907)	(3,164)	-	35,071	-	(581)
Eliminated on disposal	-	-	(7,668)	(127,493)	(32,702)	(1,245)	(94,117)	-	(263,224)
At 31 December 2017	849,465	638,346	3,374,985	2,273,221	9,124,679	758,358	4,839,900	-	21,858,954
NET CARRYING AMOUNT									
At cost	1,636,285	-	1,882,138	896,166	2,688,610	71,600	1,753,587	4,545,284	13,473,670
At valuation	-	3,421,654	-	-	-	-	-	-	3,421,654
At 31 December 2017	1,636,285	3,421,654	1,882,138	896,166	2,688,610	71,600	1,753,587	4,545,284	16,895,324
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

Work in progress relates to infrastructure for the mobile application, firewall and server that are being installed. The work in progress relates to items that were not capitalised and expensed off during the current period. In 2017, the transfers out of work in progress included items that were not capitalised and expensed to the profit and loss, as well as transferred to intangible assets of Ushs ('000) 3,311,721.

Reconciliation of the carrying amount

	2017 Ushs'000
Carrying amount as at 1 January 2017	4,708,875
Reclassification (net)	(1,003,021)
Depreciation for the year	(284,200)
Carrying amount and fair value as at 31 December 2017	3,421,654

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

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Buildings (cost)	3,318,264	3,318,264	3,318,264	3,318,264
Reclassification (net)	(1,003,021)		(1,003,021)	
Accumulated depreciation	(700,325)	(2,951,245)	(700,325)	(2,951,245)
Net carrying amount	3,421,654	4,708,875	3,421,654	4,708,875

25. INTANGIBLE ASSETS

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Cost				
At 1 January	13,860,809	10,332,711	13,860,809	10,332,711
Additions	333,323	216,377	333,323	216,377
Disposal	(15,629)	-	(15,629)	-
Transfer from work in progress (Refer to note 24)	1,072,303	3,311,721	1,072,303	3,311,721
At 31 December 2017	15,250,806	13,860,809	15,250,806	13,860,809
Accumulated amortisation				
At 1 January	9,942,519	7,281,061	9,942,519	7,281,061
Disposal	(15,601)	-	(15,601)	-
Amortisation charge	2,048,661	2,661,458	2,048,661	2,661,458
At 31 December 2017	11,975,579	9,942,519	11,975,579	9,942,519
Net carrying amount	3,275,227	3,918,290	3,275,227	3,918,290

26. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2016: 30%). The movement on the deferred income tax account is as follows:

Consolidated

a) Deferred income tax asset

	Accelerated tax depreciation Shs'000	Charges for loan impairment Shs'000	Tax Losses Shs'000	Deferred tax on revaluation surplus Shs'000	Derivative financial instruments Shs'000	Total Shs'000
At 1 January 2017	(607,509)	(1,066,017)	(22,211,544)	993,142	100,867	(22,791,061)
Charged/credited to profit	(296,363)	(217,275)	(292,975)	-	(100,867)	(907,480)
Charged to equity	-	-	-	(292,007)	-	292,007
At 31 December 2017	(903,872)	(1,283,292)	(22,504,519)	701,135	-	(23,990,548)
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	-	-	-	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)

Bank

	Accelerated tax depreciation Shs'000	Charges for loan impairment Shs'000	Tax Losses Shs'000	Deferred tax on revaluation surplus Shs'000	Derivative financial instruments Shs'000	Total Shs'000
At 1 January 2017	(607,509)	(1,066,017)	(22,211,544)	993,142	100,867	(22,791,061)
Charged/credited to profit	(296,363)	(217,275)	(292,975)	-	(100,867)	(907,480)
Charged to equity	-	-	-	(292,007)	-	292,007
At 31 December 2017	(903,871)	(1,283,292)	(22,504,519)	701,135	-	(23,990,548)
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	-	-	-	832,141
Charged to equity	-	-	-	(65,521)	-	(65,521)
Charged 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)

b) Deferred income tax liability

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Accelerated tax depreciation				
As at 1 January	879	-	-	-
Charged/credited to profit or loss	(539)	879	-	-
As at 31 December	340	879	-	-

Deferred assets amounting to Ugx 23.99 bn in respect to carry forward tax losses of Ugx75 bn have been recognised. In the opinion of the Directors, the Bank is projected to have sufficient future taxable future profits to utilise the tax credits.

27. DEPOSITS FROM BANKS

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Deposits due to other banks	155,060	3,613,008	155,060	3,613,008
	155,060	3,613,008	155,060	3,613,008

28. CUSTOMER DEPOSITS

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

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Demand deposits	230,088,714	202,021,598	230,174,483	202,197,895
Time deposits	224,427,679	138,842,268	224,763,205	139,042,268
Savings accounts	100,276,042	82,384,377	100,276,042	82,384,377
	554,792,435	423,248,243	555,213,730	423,624,540
Private enterprises and individuals	507,170,129	412,252,216	507,591,424	412,628,513
Government and parastatals	47,622,306	10,996,027	47,622,306	10,996,027
	554,792,435	423,248,243	555,213,730	423,624,540
Segment analysis				
Corporate	210,626,496	116,878,984	210,626,496	116,878,984
Retail	344,165,939	306,369,259	344,587,234	306,745,556
	554,792,435	423,248,243	555,213,730	423,624,540

29. REFINANCE LOANS

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
APEX III/Agricultural Credit Facility (ACF) Loans	83,949	120,870	83,949	120,870
	83,949	120,870	83,949	120,870

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

30. 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.

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Provisions and accruals	3,931,618	3,902,408	3,893,387	3,896,802
Other	8,887,070	15,318,779	8,843,612	15,250,221
Total	12,818,688	19,221,187	12,736,999	19,147,023

31. ISSUED CAPITAL

	Number of shares issued & fully paid (thousands)	Value per share	Total value of shares
Consolidated and Separate	Ushs '000	Ushs '000	Ushs '000
2017			
At 1 January 2017 and December 2017	96,750	1,000	96,750,000
At 31 December 2017	96,750	1,000	96,750,000
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

The shareholders increased the share capital of the bank in May 2016 with Ugx 20.25bn. (20.25mn shares). The total number of ordinary shares paid up at year end was 96.75 million (2016: 96.75 million) with a par value of Ushs 1,000 per share (2016: Ushs 1,000 per share). The total number of ordinary shares authorised for issue is 100 million.

	2017 Millions Consolidated	2016 Millions Consolidated	2017 Millions Separate	2016 Millions Separate
Number of shares				
At 1 January	96.75	76.50	96.75	76.50
Increase in shares	-	20.25	-	20.25
As at 31 December	96.75	96.75	96.75	96.75

32. 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.

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
At start of year	3,116,160	2,601,106	3,116,160	2,601,106
Transfer of excess depreciation net of tax	(683,608)	(230,949)	(683,608)	(230,949)
Increase in revaluation surplus	-	746,003	-	746,003
At end of year	2,432,552	3,116,160	2,432,552	3,116,160

33. 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:

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Provisions as per Bank of Uganda guidelines (Note 21)				
Specific provisions	3,644,890	2,944,341	3,644,890	2,944,341
General Provisions	3,672,689	3,357,070	3,672,689	3,357,070
	7,317,579	6,301,411	7,317,579	6,301,411
Provisions as per IFRS guidelines (Note 21)				
Individual impairment	4,120,962	790,987	4,120,962	790,987
Collective impairment	3,586,221	2,527,987	3,586,221	2,527,987
	7,707,183	3,318,974	7,707,183	3,318,974
Statutory credit risk reserve	(389,604)	2,982,438	(389,604)	2,982,438

34. DIVIDENDS PAYABLE

The directors do not recommend the payment of dividends for the year (2016: Nil).

35. 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 2017 - 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 1,762 million (2016: Shs 2,098 million) has been made. Below is the schedule of movement in the legal provision:

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Opening balance	2,097,725	1,250,476	2,097,725	1,250,476
Increase in provision	488,215	1,797,819	488,215	1,797,819
Decrease in provision (payments and adjustments)	(824,226)	(950,570)	(824,226)	(950,570)
Closing balance	1,761,714	2,097,725	1,761,714	2,097,725

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

Capital commitments

At 31 December 2016, the Bank had capital commitments of Ushs 3.48 bn (2016: Ushs 805 million).

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.

	2017 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2017 Ushs '000 Separate	2016 Ushs '000 Separate
Loan commitments	30,118,938	17,685,465	30,118,938	17,685,465
Performance Bonds	2,331,476	2,783,527	2,331,476	2,783,527
Guarantees	26,801,547	49,929,030	26,801,547	49,929,030
Foreign currency contracts	1,546,367	336,224	1,546,367	336,224
Documentary and letters of credit	40,118,122	52,522,033	40,118,122	52,522,033
Total	100,916,450	123,256,279	100,916,450	123,256,279

36. RELATED-PARTY DISCLOSURES

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

a) Related party balances

	2017 Ushs '000	2016 Ushs '000
Deposits from directors and shareholders	13,553,919	5,496,220
Deposits from Equity Stock Brokers Ltd	440,487	376,297

b) Related party transactions

Interest:

Interest paid to related parties/directors	498,555	549,779
Interest paid to Equity Stock Brokers Ltd	46,159	11,436

Directors' remuneration

Directors' fees	708,143	776,905
Other emoluments	327,293	438,618
	1,035,436	1,215,523

c) Key management compensation-Orient Leadership Team

Salaries and short-term benefits	951,522	1,036,369
Defined contribution benefits	161,923	70,293

37. PRIOR YEAR RESTATEMENTS

	2016 Ushs '000 Consolidated	2016 Ushs '000 Consolidated	2016 Ushs '000 Separate	2016 Ushs '000 Separate
	Previously stated	Restated	Previously stated	Restated
Cash and balances with Central Bank	68,282,059	78,291,922	68,282,059	78,291,922
Deposits and balances due from banking institutions	90,078,616	80,068,753	90,035,159	80,025,296

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements. The repurchase agreements ("repos") with Bank of Uganda are financial assets of short term maturity less than 90 days and as a result, these repos have been reclassified from Government Securities to Cash and Balances with Bank of Uganda.

The statements of financial position and the related notes to the financial statements and Comparative figures have been adjusted to conform to the current year's presentation.'

APPENDIX:

Supplementary Information to the Annual Report and Consolidated and Separate Financial Statements

IFRS 9 Financial Instruments (as revised in 2014) (effective for annual periods beginning on or after 1 January 2018) –Supplementary disclosures

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for;

- a. The classification and measurement of financial assets and financial liabilities
- b. Impairment methodology, and
- c. General hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application permitted if, and only if, it is possible without the use of hindsight. The bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

Phase 1: Classification and measurement of financial assets and financial liabilities

IFRS 9 introduces a principles-based approach to the classification of financial assets. There are three measurement classifications under IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and, for financial assets, fair value through other comprehensive income (FVOCI) based on the nature of the cash flows of the assets and an entity's business model.

These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced, all recognised financial

assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- Debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has
- contractual terms that give rise on specified dates to cash flows that are solely payments of a principal and interest on the principal amount outstanding must be measured at FVTOCL, unless the asset is designated at FVTPL under the fair value option.
- All other debt instruments must be measured at FVTPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

The business model reflects how groups of financial assets are managed to achieve a particular business objective. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flows ('hold to collect'), and where those contractual cash flows are solely payments of principal and interest (SPPI). Principal represents the fair value of the instrument at the time of initial recognition. Interest in this context represents compensation for

the time value of money and associated credit risks together with compensation for other risks and costs consistent with a basic lending arrangement and a profit margin. This requires an assessment at initial recognition of the contractual terms to determine whether it contains a term that could change the timing or amount of cash flows in a way that is inconsistent with the SPPI criteria.

Assets may be sold out of 'hold to collect' portfolios where there is an increase in credit risk. Disposals for

other reasons are permitted but such sales should be insignificant in value or infrequent in nature.

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

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

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

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

Transition impact of Phase 1 on the Bank

The Directors have assessed the business models that it operates across the Bank. In its assessment, the Directors considered the objectives of the business model, how performance is measured and how staff are remunerated amongst other factors. Where the objective of a business is to manage financial assets on a fair value basis, the instruments within that business model are measured at FVTPL. This includes the Bank's trading portfolios. The total impact of IFRS 9 in terms of provisions is Ugx 6.8bn. Most of the Bank's loans to banks and customers are held within a 'hold to collect' business model.

Investment debt securities held with Treasury Markets are held within a 'hold to trade and sell' portfolio. The majority of the remaining investment debt securities are held within a 'hold to sell' business model.

Instruments (including hybrid financial assets) that do not meet the SPPI criteria are measured at FVTPL regardless of the business model in which they are held. Non-trading equity investments are measured at FVTPL except for a small portfolio of strategic

equity investments which are irrevocably designated at FVOCI.

Phase 2: Impairment of Financial Assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of the expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework were considered in determining the scope of our application of the new expected credit loss impairment model.

IFRS 9 also extends the measurement of impairment allowances on financial guarantees, letters of credit, and commitments (including undrawn lines of credit). The Bank uses the credit conversion factors as per the Basel II Accord to convert any off-balance sheet exposure to on-balance sheet and thereafter stage the exposure at default in determination of the expected credit loss.

Transition impact of Phase 2 on the Bank

The Bank primarily uses models that utilise the probability of default (PD), loss given default (LGD) and exposure at default (EAD) metrics, discounted using the effective interest rate.

Expected credit losses are recognised for all financial debt instruments, loan commitments and financial guarantees that are classified as 'hold to collect'/'hold to collect and sell' and have cash flows that are solely payments of principal and interest. Expected credit losses are not recognised for equity instruments designated at FVOCI.

Measurement of Expected Credit Losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.



The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded;
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Bank's policy on curing of loans; and
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

An ECL allowance is recognised at the time of initial recognition for all financial instruments that are in the scope of ECL in respect of default events that may occur over the next 12 months (so-called 'stage 1 assets' with allowances equivalent to 12-months expected credit losses).

ECL continues to be determined on this basis until there is either a significant increase in credit risk ("SICR") or the asset becomes credit impaired. If a financial asset (or portfolio of financial assets) experiences an SICR since initial recognition, an ECL allowance is recognised for default events that may occur over the lifetime of the asset (so-called 'stage 2 assets' with loss allowances equivalent to lifetime expected credit losses). SICR is assessed in the context of an increase in the risk of a default occurring over the remaining life of the financial instrument when compared with that expected at the time of initial recognition for the same period. It is not assessed in the context of an increase in the expected credit loss.

The Bank uses a number of qualitative and quantitative measures in assessing SICR. Quantitative measures relate to the relative and absolute changes in the lifetime PD compared with those expected at initial recognition. Qualitative factors include placement of

loans on watch list, classification as higher credit risk or where principal and/or interest payments are 30 days or more past due.

An asset is only considered credit impaired, and lifetime expected credit losses recognised, if there is observed objective evidence of impairment. These factors are similar to the indicators of objective evidence of impairment under IAS 39. This includes, amongst other factors, assets in default, experiencing significant financial difficulty or subject to forbearance actions credit-impaired (so-called 'stage 3 assets').

The definition of default is aligned to the regulatory definition within Financial Instruments (Credit Classification and Provisioning) Regulations, 2005 and considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or interest or is considered unlikely to pay without realisation of any collateral held.

To the extent that assets are credit-impaired at the point of initial recognition, they are classified as purchased or originated credit-impaired. An expected credit loss allowance is recognised at initial recognition. Any changes in lifetime expected losses after initial recognition are charged or credited to the Statement of profit or loss through 'Impairment charges'.

The measurement of expected credit losses across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. The Bank uses a linear regression among other forecasting approaches to simulate a various scenarios around the central forecast to incorporate the potential non-linearity.

The period considered when measuring expected credit loss is the shorter of the expected life and the contractual term of the financial asset.

The expected life may be impacted by prepayments and the maximum contractual term by extension options. For certain revolving portfolios, the expected life is assessed over the period that the Group is exposed to credit risk (which is based on the length of time it takes for credit facilities to be withdrawn) rather than the contractual term.

For stage 3, financial assets, the determination of lifetime expected credit losses will be similar to the

IAS 39 approach; for example, loan loss allowances on individually impaired loans and advances will be based on the present value of estimated future cash flows for those individual clients.

Modifications for other reasons are accounted for in a similar way, except the modification gain or loss will be reported as part of income. For assets measured at amortised cost, the balance sheet amount reflects the gross asset less the allowance for ECL.

For debt instruments held at FVOCI, the balance sheet amount reflects the instrument's fair value, with the expected credit loss allowance held as a separate reserve within other comprehensive income.

ECL allowances on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component.

Recognition of Interest income

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net carrying amount (net of provisions) for the financial assets in Stage 3.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. The IFRS 9 Hedge accounting requirements will not have any significant impact as the bank does not

apply hedge accounting.

The work on macro hedging by the IASB is still at a preliminary stage – a discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with a comment period which ended in October 2014. The project is still under analysis at the IASB as at the time of writing this disclosure.

Other disclosures;

i. Implementation costs

The Bank hired subject matter experts with the specific role of guiding and upskilling the finance function. The external costs of implementation, amount to Ushs 128mn.

ii. Expected impairment (as an absolute amount or percentage)

The Bank is yet to complete its detailed quantitative impact assessment of the expected impairment amount. The un-audited quantitative impact assessment as at 31 December 2017 totalled to a decrease in the provision of approximately 12%.

iii. If the Bank will adopt the restatement or no restatement

The bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes.

iv. Impact on the Core Capital as at January 1, 2018

Based on the un-audited quantitative impact assessment as at 31 December 2017, the impact to the Core Capital is as follows;



	Previous	Anticipated	% change
Tier I	18.22%	18.42%	0.20%
Tier II	19.59%	19.79%	0.20%

v. Assessment of core capital after taking into account both the transition and impairment effects of IFRS 9 and if it is sufficient to foster the growth articulated in the Strategic Plan.

Management are of the view that the Bank's current buffers' with respect to the Core Capital adequacy ratios as sufficient to cater for any deterioration caused by the implementation of the Standard.

vi. Comparison of IFRS 9 vis-à-vis IAS 39 and FIA 2004 loan loss provisions

As at 31 December 2017	IAS 39 (Audited)	FIA 2004	IFRS 9 (Un-audited)
Specific	4,120,962	3,644,890	
General	3,586,221	3,672,689	
Stage 1	-		2,136,072
Stage 2	-		548,866
Stage 3	-		4,118,318
TOTAL	7,707,183	7,317,579	6,803,256

i. Challenges faced

The challenges faced include;

▪ **People**

Increase in personnel /upskill current personnel with intricate understanding of the requirements of the Standard.

▪ **Processes**

Review and revise of the current processes in place in order to be able to cater for the requirements of IFRS 9. Updating of the current processes in order to ensure that strong control environment is still maintained for a stable IFRS 9 model deployment.

▪ **Data & systems**

Significant challenge in regard to the detailed and specific historical data requirements at a granular level.

▪ **Policies**

Updating current policies in order to capture the requirements of the Standard.

▪ **Models**

Developing advanced and more sophisticated impairment model that is most relevant to the Bank.

▪ **MI & Reporting**

Amendment of the Management Information and reporting based on the requirements of IFRS 9.



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An abstract graphic in the bottom right corner of the page, composed of several overlapping, semi-transparent blue shapes. These shapes include curved lines and rectangular forms, creating a sense of depth and movement. The colors range from a deep navy blue to a lighter, medium blue.

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