



BANK OF AFRICA – UGANDA Ltd.

Annual Report and Financial Statements

For the year ended 31 December 2016

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For the year ended 31 December 2016

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Corporate information

Registered office

The address of the registered office is:

BANK OF AFRICA - UGANDA Ltd.
Plot 45, Jinja Road
P.O. Box 2750
Kampala, Uganda.

Company Secretary

Rehmah Nabunya
Plot 45, Jinja Road
P.O. Box 2750
Kampala, Uganda.

Auditor

PricewaterhouseCoopers
Certified Public Accountants
10th floor, Communications House
1 Colville Street
P.O. Box 882
Kampala, Uganda.

Branches	MAIN BRANCH Plot 45, Jinja Road P.O. Box 2750 Kampala	EQUATORIAL BRANCH Plot 84/86 Ben Kiwanuka Street P.O. Box 2750 Kampala
	NDEEBA BRANCH Plot 1024 Masaka Road, Ndeeba P. O. Box 2750 Kampala	PARK BRANCH Mukwano Centre, Plot 40/46 Ben Kiwanuka Street P.O. Box 2750 Kampala
	KAMPALA ROAD BRANCH Plot 48 Kampala Road P.O. Box 2750 Kampala	NTINDA BRANCH Plot 49 Ntinda Road, Ntinda P.O. Box 2750 Kampala
	WANDEGEYA BRANCH KM Plaza, Plot 85 Bombo Road P. O. Box 2750 Kampala	ENTEBBE BRANCH Plot 16 Kampala Road P. O. Box 2750 Kampala
	NAKIVUBO BRANCH Plot 15 Nakivubo Road P.O. Box 2750 Kampala	MUKONO BRANCH Plot 13 Kampala Road P.O. Box 2750 Kampala
	KABALAGALA BRANCH Plot 559 Ggaba Road Kabalagala P.O. Box 2750 Kampala	OASIS BRANCH Oasis Mall Plot 88/94 Yusuf Lule Road P.O. Box 2750 Kampala

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Corporate information (continued)

Branches	JINJA MAIN BRANCH Plot 1 Main Street P.O. Box 2095 Jinja	JINJA CLIVE ROAD BRANCH Plot 18, Clive Road East P.O. Box 2095 Jinja
	ARUA BRANCH Plot 19 Avenue Road P.O. Box 894 Arua	LIRA BRANCH Plot 1A Balla Road P.O. Box 929 Lira
	MBARARA BRANCH Plot 1 Mbaguta Road P.O. Box 1163 Mbarara	MBALE BRANCH Plot 26, Cathedral Avenue P.O. Box 553 Mbale
	FORT PORTAL BRANCH Plot 14 Bwamba Road P. O. Box 359 Fort portal	GULU BRANCH Plot 11 Awere Road P. O. Box 921 Gulu
	KOLOLO BRANCH Plot 9 Cooper Road (Kisementi) P.O. Box 2750 Kampala	KAWEMPE BRANCH Plot 125 Bombo Road P. O. Box 2750 Kampala
	NANSANA BRANCH Plot 5390 Nansana P.O. Box 2750 Kampala	LUZIRA BRANCH Plot 1329/1330 Portbell P.O. Box 2750 Kampala
	HOIMA BRANCH Plot 13 Wright Road Hoima P. O. Box 2750 Kampala	NATEETE BRANCH Plot 1-2 Old Masaka Road P. O. Box 2750 Kampala
	PATONGO BRANCH Plot 33 Dollo Road, Patongo P. O. Box 929 Lira	BBIRA MINI BRANCH Plot 2731 Mityana Road, Bulenga P. O. Box 2750 Kampala
	NAMASUBA BRANCH Plot 4010, Entebbe Rd, Namasuba P. O. Box 2750 Kampala	KALONGO MINI BRANCH Plot 16 Kalong Road, Kalongo TC P. O. Box 929 Lira
	BUSINESS CENTRE Plot 9, Kitante Road, P.O. Box 2750 – Kampala	RWENZORI MINI BRANCH Plot 1 Lumumba Avenue P. O. Box 2750 Kampala
	MASAKA BRANCH Plot 7, Birch Avenue Masaka	RUBIRIZI BRANCH Mbarara-Kasese Highway P. O. Box 1163 Mbarara

The Bank also has a mobile banking vehicle covering nine districts and key trading centres in Lira, Pader, Oyam, Lira, Kole, Apac, Dokolo, Kaberamaido, Alebtong, and Otuke.

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Directors’ Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of BANK OF AFRICA - UGANDA Ltd. (“the Bank”).

PRINCIPAL ACTIVITIES

The Bank is a licensed financial institution under the Financial Institutions Act and is a member of the Uganda Bankers Association. The Bank is engaged in the business of commercial banking and the provision of related banking services.

RESULTS AND DIVIDEND

The Bank’s profit for the year ended 31 December 2016 was Shs 12,143 million (2015: profit of Shs 519 million) as shown in the statement of comprehensive income (Page 9).

The directors recommend that a dividend of Shs 129.80 per ordinary share be paid for the year ended 31 December 2016 (2015: Nil). The total dividends for the year will be Shs 6,072 million (2015: Nil).

DIRECTORS

The directors who held office during the year and to the date of this report were:

- Mr. John CARRUTHERS - Chairman
- Mr. Arthur ISIKO - Managing Director
- Mr. Bernard R. MAGULU - Executive Director (Appointed on 2 May 2016)
- Mr. Amine BOUABID - Non-Executive Director
- Mr. Abdelkabar BENNANI - Non-Executive Director
- Mr. Mohan M. KIWANUKA - Non-Executive Director
- Mr. Vincent de BROUWER - Non-Executive Director
- Ms. Gertrude K. BYARUHANGA - Non-Executive Director

CORPORATE GOVERNANCE

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

Board of Directors

The Bank has a broad-based board of directors. As at 31 December 2016, the Board of Directors consisted of 8 members. The board functions as a full board and through various committees constituted to oversee specific operational areas. The board has constituted five committees. These are the Risk Management Committee, Asset and Liability Management Committee, Staff and Compensation Committee, Audit Committee, and the Credit Committee. All board committees are constituted and chaired by non-executive directors. The membership on these committees at 31 December 2016 was as follows:

Committee	Head	Membership	Meeting frequency
Risk Management	Non-executive director	1 non-executive member 2 executive members	Quarterly
Asset and Liability Management	Non-executive director	3 non-executive members 1 executive member	Quarterly
Staff and Compensation	Non-executive director	3 non-executive members	Quarterly
Audit	Non-executive director	3 non-executive members	Quarterly
Credit Committee	Non-executive director	2 non-executive members 1 executive member	Quarterly

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Directors' Report (continued)

In addition to the above committees, there are committees at management level comprised of senior management that meet on a daily, weekly, monthly, and/or quarterly basis.

AUDITORS

The Bank's auditor, PricewaterhouseCoopers Certified Public Accountants, is not eligible for reappointment having reached the mandatory limit of four years of continuous service to the Bank as stipulated in the Financial Institutions Act. KPMG was appointed as the new auditor for the period effective 2017 subject to central bank approval.

By order of the Board



Rehmah Nabunya
Secretary

7 March 2017

Statement of Directors' Responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Ugandan Companies Act and the Financial Institutions Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit in accordance with International Financial Reporting Standards and with the requirements of the Ugandan Companies Act and the Financial Institutions Act. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Director



Director



Director

7 March 2017



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF BANK OF AFRICA – UGANDA Ltd.

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the state of the financial affairs of BANK OF AFRICA – UGANDA Ltd. as at 31 December 2016, and its profit and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been prepared in the manner required by the Ugandan Companies Act.

What we have audited

The financial statements of BANK OF AFRICA – UGANDA Ltd. set out on pages 9 to 52 and comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Independence

We are independent of the **Company** in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“**the** IESBA Code”). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and are prepared in the manner required by the Ugandan Companies Act, 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.

*PricewaterhouseCoopers Certified Public Accountants, Communications House, 1 Colville Street,
P. O. Box 882, Kampala, Uganda
T: +256 (414) 236018, +256 (312) 354400, F: +256 (414) 230153, www.pwc.com/ug*



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF BANK OF AFRICA – UGANDA Ltd.

Report on the audit of the financial statements (continued)

Responsibilities of the directors for the financial statements (continued)

In preparing the financial statements, the directors are responsible for assessing the 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.

The directors are responsible for overseeing the financial reporting process.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but 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 identified above 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF BANK OF AFRICA – UGANDA Ltd.

Report on the audit of the financial statements (continued)

- 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books; and
- iii) the Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is CPA Uthman Mayanja – P0181.


Certified Public Accountants
Kampala


CPA Uthman Mayanja

12 April 2017

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Statement of Comprehensive Income

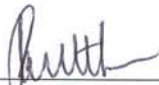

	Notes	2016 Shs M	2015 Shs M
Interest income	5	70,988	52,552
Interest expense	6	<u>(13,427)</u>	<u>(14,244)</u>
Net interest income		57,561	38,308
Impairment losses on loans and advances	17 (b)	<u>(2,868)</u>	<u>(5,968)</u>
Net interest income after loan impairment charges		54,693	32,340
Fee and commission income	7	25,426	37,459
Fee and commission expense	8	(8,025)	(13,881)
Net foreign exchange gains/(losses)	9	1,129	(6,165)
Other operating income	10	2,577	2,408
Operating expenses	11	<u>(60,042)</u>	<u>(53,654)</u>
Profit/(loss) before income tax		15,758	(1,493)
Income tax (expense)/credit	13	<u>(3,615)</u>	<u>2,012</u>
Profit for the year		<u>12,143</u>	<u>519</u>
Other comprehensive income		-	-
Total comprehensive profit for the year		<u>12,143</u>	<u>519</u>
Earnings per share - basic and diluted (Shs per share)	30	<u>259.60</u>	<u>12.40</u>



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Statement of Financial Position

	Notes	2016 Shs M	2015 Shs M
ASSETS			
Cash and balances with Bank of Uganda	14	76,389	67,376
Deposits and balances due from other banks	15	59,519	115,690
Deposits due from group companies	32 (a)	28,186	52,155
Derivatives at fair value through profit or loss	16 (b)	123	2,203
Government securities	16 (a)	183,454	81,830
Loans and advances to customers	17 (a)	293,281	264,666
Other assets	18	11,381	8,587
Property and equipment	19	11,931	13,789
Operating lease prepayments	20	3,050	3,098
Intangible assets	21	3,955	4,022
Deferred income tax asset	26	17,291	15,991
Total assets		688,560	629,407
LIABILITIES			
Customer deposits	22	480,246	433,368
Deposits and balances due to other banking institutions	23	32,140	37,857
Amounts due to group companies	32 (b)	53,384	38,128
Other borrowings	24	7,826	23,392
Current income tax liabilities	14	2,064	482
Other liabilities	25	16,370	11,793
Total liabilities		592,030	545,020
EQUITY			
Share capital	27	46,775	46,775
Share premium	27	23,614	23,614
Proposed dividends	31	6,072	-
Retained earnings		20,069	13,998
Total equity		96,530	84,387
Total equity and liabilities		688,560	629,407

The financial statements on pages 9 to 52 were approved for issue by the Board of Directors on 7 March 2017 and signed on its behalf by:

Chairman 
 Director 

Director 
 Secretary 

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Statement of Changes in Equity

	Notes	Share capital Shs M	Share premium Shs M	Regulatory reserve Shs M	Proposed dividends Shs M	Retained earnings Shs M	Total Shs M
Year ended 31 December 2015							
At 1 January 2015		34,421	14,757	1,628	-	11,851	62,657
Comprehensive income:							
Profit for the year		-	-	-	-	519	519
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	519	519
Transactions with owners:							
Rights issue	27	12,354	8,857	-	-	-	21,211
Transfer from regulatory reserve		-	-	(1,628)	-	1,628	-
At end of year	27	46,775	23,614	-	-	13,998	84,387
Year ended 31 December 2016							
At 1 January 2016	27	46,775	23,614	-	-	13,998	84,387
Comprehensive income:							
Profit for the year		-	-	-	-	12,143	12,143
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	12,143	12,143
Transactions with owners:							
Proposed dividends	31	-	-	-	6,072	(6,072)	-
At end of year	27	46,775	23,614	-	6,072	20,069	96,530

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Statement of Cash Flows

	Notes	2016 Shs M	2015 Shs M
Cash flows from operating activities			
Interest receipts		56,970	52,196
Interest payments		(13,043)	(14,460)
Net fee and commission receipts		17,401	23,578
Other income received		3,251	(4,214)
Recoveries from loans previously written off		2,176	1,868
Payments to employees and suppliers		(59,125)	(48,279)
Income tax paid	13	(3,332)	(2,750)
		4,298	7,939
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities:			
- loans and advances		(33,499)	(31,578)
- cash reserve requirement		(1,510)	(3,665)
- other assets		(713)	(3,583)
- customer deposits		46,910	91,634
- deposits due to other banks		(5,717)	26,810
- amounts due to group companies		14,697	5,610
- other liabilities		9,123	2,461
- government securities		(88,089)	18,708
Net cash (utilized)/ generated from operating activities		(54,500)	115,559
Cash flows from investing activities			
Purchase of property and equipment	19	(1,789)	(3,240)
Purchase of intangible assets	21	(1,112)	(1,815)
Proceeds from sale of property and equipment		187	-
Net cash utilised in investing activities		(2,714)	(5,055)
Cash flows from financing activities			
Issue of ordinary shares	27	-	21,211
Repayment of borrowed funds		(15,423)	(15,594)
Net (utilized)/ cash generated from financing activities		(15,423)	5,617
Net (decrease)/ increase in cash and cash equivalents		(72,637)	116,121
Cash and cash equivalents at start of year		217,886	101,765
Cash and cash equivalents at end of year		145,249	217,886

BANK OF AFRICA – UGANDA Ltd.
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Notes

1 General information

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

BANK OF AFRICA – UGANDA Ltd.
Plot 45, Jinja road
P.O. Box 2750
Kampala,
Uganda

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Uganda Shillings, rounded to the nearest million (Shs M).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank

The following standards and amendments have been applied by the Bank for the first time for the financial year beginning 1 January 2016:

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance.
- Notes – confirmation that the notes do not need to be presented in a particular order.

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) New and amended standards adopted by the Bank

- Other comprehensive income arising from investments accounted for under the equity method – the share of other comprehensive income arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

Annual Improvements to the IFRSs 2012-2014 Cycle:

The latest annual improvements, effective 1 January 2016, clarify:

- IFRS 5 – when an asset (or disposal group) is reclassified from ‘held for sale’ to ‘held for distribution’ or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute ‘continuing involvement’ and, therefore, whether the asset qualifies for de recognition.
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.
- IAS 19 – that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.
- IAS 34 – what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report’ and adds a requirement to cross-reference from the interim financial statements to the location of that information and make the information available to users on the same terms and at the same time as the interim financial statements.

Amendments to IAS 16 and IAS 38:

The IASB has amended IAS 16 Property, Plant and Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment.

IAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either

- The intangible asset is expressed as a measure of revenue (i.e. where a measure of revenue is the limiting factor on the value that can be derived from the asset), or
- It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

Notes (continued)

2 Summary of significant accounting policies (continued)

(ii) New standards and interpretations early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments' ("IFRS 9")

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income, and fair value through the profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

IFRS 15, 'Revenue from contracts with customers' ("IFRS 15")

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

IFRS 16, 'Leases' ("IFRS 16")

Lessees are now required to recognise assets and liabilities arising from all leases (with limited exceptions) in the statement of financial position. Lessor accounting has not substantially changed in the new standard.

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. A lessee is not required to recognise assets and liabilities for short-term leases (12 months or less) which contain no purchase options, and leases where the underlying asset has low value when new (such as personal computers or small items of office furniture). Instead, these can be accounted for as expenses on a straight-line basis over the lease term or using another systematic basis.

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment.

Notes (continued)

2 Summary of significant accounting policies (continued)

(ii) New standards and interpretations early adopted (continued)

This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

IFRS 16 supersedes 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'. The standard is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

Recognition of Deferred Tax Asset for Unrealised Losses - Amendment to IAS 12: Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period;
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit;
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type;
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

The amendment to IAS 12 is effective 1 January 2017

Disclosure Initiative – Amendments to IAS 7: Effective 1 January 2017, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and on cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example, by providing a net debt reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Uganda Shillings (“Shs”) which is the Bank’s functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

(c) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within ‘interest income’ or ‘interest expense’ respectively in the statement of comprehensive income 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 paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

(d) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised over the life of the loan. Fees and commissions are generally recognised on an accrual basis when the service has been provided. 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and advances; held-to-maturity financial assets and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition. Currently the Bank does not have financial assets at fair value through profit or loss.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading. Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces or eliminates a measurement inconsistency; or
- they form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

(ii) Loans and advances

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

- those classified as held for trading and those that the Bank on initial recognition designates as at fair value through profit and 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.

(iii) Held-to maturity financial assets

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

(iv) Available-for-sale financial assets

Available-for-sale assets are non-derivatives that are either designated in this category or not classified in any other categories.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial assets (continued)

(iv) Available-for-sale financial assets (continued)

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as "gains and losses from investment securities".

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

(f) Derivative financial instruments

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

(g) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to customers or placements with other banks, 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.

(h) Offsetting financial instruments

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- (i). significant financial difficulty of the issuer or obligor;
- (ii). a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii). the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (iv). it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v). the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi). observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 1 month and 12 months.

(i) Assets carried at amortised cost

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are classified in loan impairment charges whilst impairment charges relating to investment securities are classified in 'Net gains/ (losses) on investment securities'. Subsequent recoveries of amounts previously written off increase the amount of other income in the statement of comprehensive income.

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

In addition to the measurement of the impairment losses on loans and advances in accordance with IFRS as set out above, the Bank is required by the Financial Institutions Act to estimate losses on loans and advances as follows:

- 1) Specific provision for the loans and advances considered non performing (impaired) based on the criteria, and classification of such loans and advances established by the Bank of Uganda, as follows:
 - a) Substandard loans with arrears period from 90 to 179 days – 20% provision
 - b) Doubtful loans and advances with arrears period from 180 to 364 days – 50% provision; and
 - c) Loss with arrears period exceeding 364 days – 100% provision
- 2) General provision of 1% of credit facilities less specific provisions and suspended interest.

In the event that provisions computed in accordance with the Financial Institutions Act exceed provisions determined in accordance with IFRS, the excess is accounted for as an appropriation of retained earnings. Otherwise no further accounting entries are made.

Notes (continued)

2 Summary of significant accounting policies (continued)

(ii) Assets carried at fair value

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of comprehensive income.

Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

(j) Property and equipment

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

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 'operating expenses' during the period in which they are incurred.

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

Buildings	Shorter of: period of lease or 50 years
Motor vehicles	4 years
Fixtures, fittings and equipment	3-8 years

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

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

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in "other income" in the statement of comprehensive income.

Notes (continued)

2 Summary of significant accounting policies (continued)

(k) Intangible assets

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

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 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.

Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

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

(l) Income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the balance sheet date.

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank, treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank.

(n) Employee benefits

(i) Retirement benefit obligations

The Bank operates a defined contribution retirement benefit scheme for all its permanent confirmed employees. The Bank and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Bank and the employees.

The Bank's contributions to the defined contribution schemes are charged to the statement of comprehensive income in the year in which they fall due.

(ii) Other entitlements

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

(o) Customer deposits

Deposits from customers are measured at amortised cost using the effective interest rate method.

(p) Borrowings

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

(q) Share capital

Ordinary shares are classified as 'share capital' in equity and measured at the fair value of consideration receivable without subsequent re-measurement. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(r) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

Notes (continued)

2 Summary of significant accounting policies (continued)

(s) Accounting for leases

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

(i) With the Bank as lessee

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

(ii) With the Bank as lessor

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the Statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

To date, the Bank has not leased out any assets as lessor.

(t) Acceptances and letters of credit

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

(u) Grants

Grants include assistance offered by government, government agencies and similar bodies whether local, national, or international in the form of transfers of resources in return for past, or future compliance with certain conditions relating to the operation of the Bank. Grants related to assets are those whose primary condition is that the Bank should purchase long term assets.

Grants are recognised when there is reasonable assurance that the Bank will comply with the conditions attached to the grant and that the grant will be received.

Grants awarded towards the purchase of assets are netted off against the total purchase price in arriving at the carrying value of the asset. The grant is then recognised as income through profit or loss over the life of the asset by way of a reduction in the depreciation charge of the asset.

3 Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

(a) Deferred income tax asset

In 2016, the Bank recognised a deferred tax asset of Shs 1,300 million in respect of accumulated tax losses based on management's projections that sufficient taxable profits will be generated in 2017 against which the deferred tax asset will be utilised. The deferred tax has been maintained in the balance sheet with an assumption that 2017 will be profitable based on the projected increase in revenue at a faster rate than the increase in costs.

(b) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. As at 31 December 2016, an IAS 39 provision was computed for unidentified and identified impairment. Impairment loss was measured on the basis of the present value of estimated future cash flows discounted at the original effective interest rate. Future expected cash flows were determined based on the value of the collateral held for which the bank's interest was registered.

For all loans not identified as individually impaired and for those identified as being impaired but classified as insignificant an impairment provision was computed using the existing 5 year Bank historical loss experience to arrive at the credit loss ratio of 1.78%. The loss ratio was adjusted by the emergence period (either one, six or twelve months) influenced by the credit risk characteristics typically: (a) the loan business segment (Retail, SME or Corporate), (b) the relative loan tenors and (c) specifically for Corporate loans, the corporate structure, to determine the ability of such borrowers to access alternative cash flows hence extending the emergence period to the maximum 12 months.

(c) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets 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 valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created 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 practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(d) Held-to-maturity financial assets

The Bank follows the guidance of IAS 39 on classifying 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 assets to maturity. If the Bank fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortised cost.

Notes (continued)

4 Financial risk management

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. These policies are approved by the Board of Directors.

The Treasury department identifies, evaluates and hedges financial risks in close cooperation with the 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 and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised and reports regularly to the Board of Directors through the Board Risk Committee.

(i) Credit risk measurement

Loans and advances (including commitments and guarantees)

The estimation of credit risk 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. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Probability of default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(i) Credit risk measurement (continued)

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, customers are segmented into five rating classes as shown on the Bank's internal ratings scale below:

Bank's rating	Description of the grade
1	Standard and current
2	Watch
3	Substandard
4	Doubtful
5	Loss

(ii) Risk limit control and mitigation policies

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

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. 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 funds advanced, 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 communal and/or business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as fixed deposits, debt securities and equities.

The Bank secures all borrowings with acceptable collateral, except in limited cases where credit is offered on an unsecured basis

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Credit related commitments

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

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Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(b) Credit related commitments (continued)

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

(iii) Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	2016	2015
	Shs M	Shs M
Balances with the Central Bank (Note 14)	38,628	31,741
Deposits and balances due from other banking institutions (Note 15)	59,519	115,690
Amounts due from group companies (Note 32 (a))	28,186	52,155
Loans and advances to customers (Note 17)	298,772	270,775
Government securities (Note 16 (a))	183,454	81,830
Other assets (Note 18)	<u>6,575</u>	<u>5,460</u>
Credit risk exposures relating to off-balance sheet items:		
- Trade related and self-liquidating documentary credits	16,694	18,885
- Performance bonds and standbys	69,350	44,395
- Commitments to lend	<u>25,663</u>	<u>8,339</u>
Total exposure	<u>726,84</u>	<u>629,27</u>

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 40% of the total maximum exposure is derived from loans and advances to banks and customers (2015: 42%); 25% represents investments in debt securities (2015: 13%).

Loans and advances to customers, other than to companies or salaried individuals borrowing less than Shs 120 million, are secured by collateral in the form of charges over land and buildings and/or plant and machinery and other assets, corporate and personal guarantees or assignment of contract proceeds.

Management is confident in its ability to continue to control and sustain acceptable exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans
- 71% of the loans and advances portfolio are neither past due nor impaired
- 99% of the loans and advances portfolio are not impaired; and
- 68% of the loans and advances portfolio are backed by collateral

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Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Loans and advances	2016 Shs M	2015 Shs M
Neither past due nor impaired	211,619	194,714
Past due but not impaired	84,542	70,755
Impaired	<u>2,611</u>	<u>5,306</u>
Gross	298,772	270,775
Less: allowance for impairment (Note 17 (a))	<u>(5,491)</u>	<u>(6,109)</u>
Net amount	<u>293,281</u>	<u>264,666</u>

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 can be assessed by reference to the internal rating system adopted by the Bank:

	2016 Shs M	2015 Shs M
Standard	<u>211,619</u>	<u>194,714</u>

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances greater than 90 days are not considered impaired if there is sufficient collateral to cover the facility after taking into account costs of realising security and the effect of discounting. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2016 Shs M	2015 Shs M
Past due up to 30 days	65,990	55,383
Past due 31 – 60 days	4,385	14,150
Past due 61 – 90 days	435	1,088
Past due over 90 days	<u>13,732</u>	<u>134</u>
Total	<u>84,542</u>	<u>70,755</u>

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Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Individually impaired:

Of the total gross amount of past due loans and advances, following amounts have been individually assessed as impaired:

	2016	2015
	Shs M	Shs M
Individually assessed impaired loans		
- Corporate	16	2,306
- SME	733	622
- Consumer	1,862	2,378
	2,611	5,306
Fair value of collateral held	1,217	1,767

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans. Renegotiated loans totalled Shs 5,494 million (2015: Shs 6,800 million).

Repossessed collateral

During 2016, the Bank did not re-possess any collateral held as security. The Bank's policy is to dispose of repossessed properties as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Bank of Uganda requires that the Bank maintains a minimum cash reserve requirement. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis.

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

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Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date and from financial assets by expected maturity dates.

At 31 December 2016	Up to 1 month Shs M	1-3 months Shs M	3-12 months Shs M	1-5 years Shs M	Over 5 years Shs M	Total Shs M
Liabilities						
Customer deposits	437,669	11,086	31,491	-	-	480,246
Deposits and balances due to banking institutions	32,140	-	-	-	-	32,140
Amounts due to group companies	17,294	36,090	-	-	-	53,384
Derivative liabilities	9,114	-	-	-	-	9,114
Other borrowed funds	2,875	-	3,548	989	414	7,826
Other liabilities	18,434	-	-	-	-	18,434
Total liabilities (contractual maturity dates)	517,526	47,176	35,039	989	414	601,144
Assets						
Cash and bank balances with Central Bank	76,389	-	-	-	-	76,389
Deposits and balances due from banking institutions	59,519	-	-	-	-	59,519
Amounts due from group companies	28,186	-	-	-	-	28,186
Derivative assets	9,237	-	-	-	-	9,237
Loans and advances to customers	65,370	32,474	39,931	134,587	20,919	293,281
Government securities	11,466	31,374	140,055	559	-	183,454
Property and equipment	-	10	201	4,617	7,103	11,931
Intangible assets	-	-	4	3,951	-	3,955
Other assets	28,671	-	-	-	3,051	31,722
Total assets (expected maturity dates)	278,838	63,858	180,191	143,714	31,073	697,674
On-balance sheet mismatch	(238,688)	16,682	145,152	142,725	30,659	96,530
Net off-balance sheet mismatch	(31,093)	(19,406)	(55,982)	(5,225)	-	(111,706)
Net liquidity position	(269,781)	(2,724)	89,170	137,500	30,659	(15,176)
At 31 December 2015						
Net liquidity gap	(189,807)	44,790	(22,005)	139,124	40,666	12,768

(c) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates, foreign currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by the ALCO) and for the day to day implementation of those policies.

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Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

Currency risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2016 and 2015. Included in the table are the Bank's financial instruments, categorised by foreign currency.

	USD Shs M	GBP Shs M	Euro Shs M	Other Shs M	Total Shs M
At 31 December 2016					
Assets					
Cash and balances with Central Bank	19,674	1,490	2,040	140	23,344
Deposits and balances due from banking institutions	38,024	1,904	15,174	179	55,281
Amounts due from group companies	25,808	34	2,338	6	28,186
Loans and advances	163,426	-	-	1	163,427
Other financial assets	3,679	1	2	-	3,682
Total assets	250,611	3,429	19,554	326	273,920
Liabilities					
Customer deposits	168,255	1,642	15,563	78	185,538
Deposits and balances due to banking institutions	19,383	-	-	-	19,383
Amounts due to group companies	53,382	-	-	2	53,384
Other borrowed funds	6,257	-	609	-	6,866
Other financial liabilities	2,164	3	2,414	-	4,581
Total liabilities	249,441	1,645	18,586	80	269,752
Net on-balance sheet position	1,170	1,784	968	246	4,168
Net off-balance sheet position	(5,208)	(1,645)	(4,359)	(259)	(11,471)
Overall open position	(4,038)	139	(3,391)	(13)	(7,303)
At 31 December 2015	(27,029)	42,647	(34,864)	93	(19,153)

At 31 December 2016, if the functional currency had strengthened/weakened by 1% against the foreign currencies with all other variables held constant, the pre-tax profit for the year would have been Shs 20 million (2015: Shs 200 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities.

Interest rate risk

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

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Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

Gap Analysis

Under this, interest sensitive assets and liabilities are classified into various time bands according to their maturity in the case of fixed interest rates, and residual maturity towards next pricing date in the case of floating exchange rates. The size of the gap in a given time band is analysed to study the interest rate exposure and the possible effects on the Bank's earnings.

In order to evaluate the earnings exposure, interest Rate Sensitive Assets (RSA) in each time band are netted off against the interest Rate Sensitive Liabilities (RSL) to produce a repricing gap for that time band. A positive gap indicates that the Bank has more RSA and RSL. A positive of asset sensitive gap means that an increase in market interest rates could cause an increase in the net interest margin and vice versa. Conversely, a negative or liability sensitive gap implies that the Bank's net interest margin could decline as a result of increase in market rates and vice versa.

At 31 December 2016, if the interest rates on interest bearing assets and liabilities had been 100 basis points higher/lower with all other variables held constant, the pre-tax loss for the year would have been Shs 1,641 million (2015: Shs 1,572 million) higher/lower.

The table below summarises the Bank's exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

At 31 December 2016	Up to 1 month Shs M	1-3 months Shs M	3-12 months Shs M	Over 1 year Shs M	Non- interest bearing Shs M	Total Shs M
Assets						
Cash and bank balances with Central Bank	8,005	-	-	-	68,384	76,389
Deposits and balances due from banking institutions	59,519	-	-	-	-	59,519
Amounts due from group companies	24,577	3,609	-	-	-	28,186
Loans and advances to customers	68,663	32,474	39,931	152,213	-	293,281
Government securities	11,466	31,374	140,055	559	-	183,454
Property and equipment	-	-	-	-	11,931	11,931
Operating lease prepayment	-	-	-	-	3,050	3,050
Intangible assets	-	-	-	-	3,955	3,955
Other assets	-	-	-	-	28,795	28,795
Total assets	<u>172,230</u>	<u>67,457</u>	<u>179,986</u>	<u>152,772</u>	<u>116,115</u>	<u>688,560</u>
Liabilities						
Customer deposits	273,084	11,488	30,790	-	164,884	480,246
Deposits and balances due to banking institutions	32,140	-	-	-	-	32,140
Amounts due to group companies	17,294	36,090	-	-	-	53,384
Other borrowed funds	2,875	-	3,547	989	415	7,826
Other Liabilities	-	-	-	-	18,434	18,434
Equity	-	-	-	-	96,530	96,530
Total liabilities	<u>325,393</u>	<u>47,578</u>	<u>34,337</u>	<u>989</u>	<u>280,263</u>	<u>688,560</u>
Interest re-pricing gap	<u>(153,163)</u>	<u>19,879</u>	<u>145,649</u>	<u>151,783</u>		
h At 31 December 2015						
Interest sensitivity gap	<u>(23,300)</u>	<u>14,123</u>	<u>23,586</u>	<u>142,798</u>		

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

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

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

(d) Fair values of financial assets and liabilities

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

Fair value hierarchy

IFRS 7 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 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 and exchanges traded derivatives like futures.
- 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). The sources of input parameters like LIBOR yield curve.
- 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. The Bank considers relevant and observable market prices in its valuations where possible.

	Level 1	Level 2	Level 3	Total
	Shs M	Shs M	Shs M	Shs M
At 31 December 2016				
Assets measured at fair value				
Currency swaps	-	123	-	123
At 31 December 2015				
Currency swaps	-	2,203	-	2,203

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Notes (continued)

4 Financial risk management (continued)

(d) Fair values of financial assets and liabilities (continued)

The table below shows items not measured at fair value for which fair value is disclosed

31 December 2016	Level 1 Shs M	Level 2 Shs M	Level 3 Shs M	Total Shs M
Financial assets				
Deposits and balances due from other banks	-	-	59,519	59,519
Deposits due from group companies	-	-	28,186	28,186
Government securities	-	-	183,454	183,454
Loans and advances to customers	-	-	293,281	293,281
Other assets	-	-	11,381	11,381
Total assets	-	-	575,944	575,944
Financial liabilities				
Customer deposits	-	-	480,246	480,246
Deposits and balances due to other banking institutions	-	-	32,140	32,140
Amounts due to group companies	-	-	53,384	53,384
Other borrowings	-	-	7,826	7,826
Other liabilities	-	-	16,370	16,370
Total liabilities	-	-	589,966	589,966
31 December 2015				
	Level 1 Shs M	Level 2 Shs M	Level 3 Shs M	Total Shs M
Financial assets				
Deposits and balances due from other banks	-	-	115,690	59,519
Deposits due from group companies	-	-	52,155	28,186
Government securities	-	-	81,830	183,454
Loans and advances to customers	-	-	264,666	293,281
Other assets	-	-	8,587	11,381
Total assets	-	-	522,928	522,928
Financial liabilities				
Customer deposits	-	-	433,368	433,368
Deposits and balances due to other banking institutions	-	-	37,857	37,857
Amounts due to group companies	-	-	38,128	38,128
Other borrowings	-	-	23,392	23,392
Other liabilities	-	-	11,793	11,793
Total liabilities	-	-	544,538	544,538

The unobservable valuation inputs used to assess financial assets and liabilities not fair valued but for which fair value is reported include risk-free rate, risk premiums, liquidity spreads, credit risk, timing of settlement, service costs and pre-payment.

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Notes (continued)

4 Financial risk management (continued)

(e) Financial instruments by category

31 December 2016	Loans and receivables Shs M	Held to maturity Shs M	Total Shs M
Assets as per balance sheet			
Cash and balances with Central Bank	76,389	-	76,389
Placements with other banks	59,519	-	59,519
Amounts due from group companies	28,186	-	28,186
Loans and advances to customers	293,281	-	293,281
Investment securities:			
– held to maturity	-	183,454	183,454
Total	<u>457,375</u>	<u>183,454</u>	<u>640,829</u>
31 December 2015			
Assets as per balance sheet			
Cash and balances with Central Bank	67,376	-	67,376
Placements with other banks	115,690	-	115,690
Amounts due from group companies	52,155	-	52,155
Loans and advances to customers	264,666	-	264,666
Investment securities:			
– held to maturity	-	81,830	81,830
Total	<u>499,887</u>	<u>81,830</u>	<u>581,717</u>
Liabilities as per balance sheet – at amortised cost			
Customer deposits		480,246	433,368
Deposits from other banks		32,140	37,857
Amounts due to group companies		53,384	38,128
Other liabilities		18,434	12,275
Other borrowed funds		<u>7,826</u>	<u>23,392</u>
Total		<u>592,030</u>	<u>545,020</u>

(f) Capital management

The Bank monitors the adequacy of its capital using ratios established by Bank of Uganda. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off balance sheet commitments and market risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt, equity securities. Assets are weighted according the amount of capital deemed necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied, for example cash and money market instruments have zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount. Certain asset categories have intermediate weightings.

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Notes (continued)

4 Financial risk management (continued)

(f) Capital management (continued)

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheet, are:

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

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

The Central Bank requires each bank to:

- a) hold the minimum level of capital unimpaired by losses of Shs 25 billion;
- b) maintain a core capital ratio of not less than 8% of total risk adjusted assets plus risk adjusted off balance sheet items as determined by the Central Bank by statutory instrument;
- c) maintain a total (core plus supplementary) capital ratio of not less than 12% of total risk adjusted assets plus risk adjusted off balance sheet items as determined by the Central Bank by statutory instrument;

The Bank's core capital (Tier 1 capital) is comprised of share capital, share premium, plus retained earnings less any deductions determined by the Central Bank.

The Bank's supplementary (Tier 2 capital) is comprised of revaluation reserves, unencumbered general provisions for losses, regulatory reserves, subordinated debt and hybrid debt.

The table below summarises the composition of regulatory capital and the ratios of the Bank determined in accordance with the Central Bank's regulatory returns form BS 100A:

	2016	2015
	Shs M	Shs M
<i>Core capital (Tier 1)</i>		
Shareholder's equity	70,389	70,389
Retained earnings	20,069	13,998
Intangible assets	(3,955)	(4,022)
Deferred income tax asset	(17,291)	(15,991)
	<u>69,212</u>	<u>64,374</u>
Total core capital		
<i>Supplementary capital (Tier 2)</i>		
General provisions	3,001	2,856
Subordinated debt	-	2,549
	<u>3,001</u>	<u>5,405</u>
Tier 2 capital		
	<u>3,001</u>	<u>5,405</u>
Total capital (Tier 1 and Tier 2)	<u>72,213</u>	<u>69,779</u>

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Notes (continued)

4 Financial risk management (continued)

(f) Capital management (continued)

The risk weighted assets are measured by means of a hierarchy of four risk categories classified according to the nature of the asset and reflecting an estimate of the credit risk associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses. The table below summarises the composition of the risk weighted assets of the Bank at 31 December 2016:

Balance sheet assets (net of provisions)	Balance sheet amount		Risk weight %	Risk weighted amount	
	2016 Shs M	2015 Shs M		2016 Shs M	2015 Shs M
Cash and balances with Bank of Uganda	76,389	67,376	0%	-	-
Due from commercial banks in Uganda	4,002	18,618	20%	800	3,724
Amounts due from other banks:					
Rated AAA to AA(-)	47,958	-	20%	9,592	-
Rated A(+) to A(-)	7,509	96,926	50%	3,755	48,463
Rated A(-) and non-rated	49	146	100%	49	146
Amounts due from group companies	28,186	52,155	100%	28,186	52,155
Loans and advances to customers	298,282	269,561	100%	298,282	269,561
Investment securities held to maturity	183,454	81,830	0%	-	-
Property and equipment	11,931	13,789	100%	11,931	13,789
Operating lease prepayments	3,050	3,098	100%	3,050	3,098
Intangible assets (offset against core capital)	3,955	4,022	0%	-	-
Deferred tax assets (offset against core capital)	17,291	15,991	0%	-	-
Other assets	11,504	10,790	100%	11,504	10,790
On balance sheet assets	693,560	634,302		367,149	401,726
Off-balance sheet positions					
Contingents secured by cash collateral	11,517	6,608	0%	-	-
Guarantees and acceptances	-	3,627	100%	-	3,627
Performance bonds and standbys	57,833	38,393	50%	28,917	19,197
Trade related and self-liquidating credits	16,694	14,652	20%	3,339	2,930
Commitments to lend	25,663	8,339	50%	12,832	4,170
Off balance sheet items	111,707	71,619		45,088	29,924
Total risk-weighted assets	805,267	705,921		412,237	431,650
Capital ratios per Financial Institutions Act (FIA)				2016	2015
Core capital				16.8%	14.9%
Total capital				17.5%	16.2%
FIA minimum ratio capital requirement				8%	8%
Core capital				12%	12%
Total capital				12%	12%

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Notes (continued)

	2016	2015
	Shs M	Shs M
5 Interest income		
Loans and advances	41,193	37,134
Government securities	24,574	12,394
Short term placements	<u>5,221</u>	<u>3,024</u>
	<u>70,988</u>	<u>52,552</u>
6 Interest expense		
Customer deposits	9,461	9,983
Deposits due to banking institutions	2,216	2,314
Borrowed funds	630	1,406
Other	<u>1,120</u>	<u>541</u>
	<u>13,427</u>	<u>14,244</u>
7 Fee and commission income		
Transactional fees and commission income	21,300	34,625
Credit related fees and commission income	<u>4,126</u>	<u>2,834</u>
	<u>25,426</u>	<u>37,459</u>
8 Fee and commission expense		
Transactional fees and commission expense	7,850	13,500
Credit related fees and commission expense	<u>175</u>	<u>381</u>
	<u>8,025</u>	<u>13,881</u>
9 Foreign exchange income		
Realised foreign exchange gains	2,282	6,173
Losses on derivatives	-	(12,250)
Unrealised foreign exchange losses	<u>(1,153)</u>	<u>(88)</u>
	<u>1,129</u>	<u>(6,165)</u>
10 Other operating income		
Recoveries from loans previously written off as uncollectible	2,282	2,060
Miscellaneous income	<u>295</u>	<u>245</u>
	<u>2,577</u>	<u>2,305</u>

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	2016	2015
	Shs M	Shs M
11 Operating expenses		
Employee benefits expense (Note 12)	26,745	22,640
Depreciation of property and equipment (Note 19)	3,256	3,338
Amortisation of intangible assets (Note 21)	1,143	1,212
Auditor's remuneration	214	187
Legal and professional fees	325	1,578
Marketing and advertising	1,867	1,795
Travel expenses	1,676	1,119
Excise duty on fees	2,249	3,586
Occupancy and premises costs	6,500	6,026
Communication expenses	2,615	2,889
Repairs and maintenance	3,425	3,636
Deposit Protection Scheme Contribution	854	791
Printing and stationery	850	959
Other operating expenses	8,323	3,898
	<u>60,042</u>	<u>53,654</u>
12 Employee benefits expense		
Salaries and wages	21,207	17,614
NSSF contributions	1,626	1,439
Defined contribution scheme contributions	578	524
Other staff costs	3,334	3,063
	<u>26,745</u>	<u>22,640</u>
13 Income tax credit		
Current income tax charge	4,914	3,675
Deferred income tax credit (Note 26)	(1,299)	(5,687)
	<u>3,615</u>	<u>(2,012)</u>
Profit/ (loss) before income tax	15,758	(1,493)
Tax calculated at the statutory income tax rate of 30% (2015: 30%)	4,727	(448)
Tax effect of:		
Income not subject to tax	(7,428)	(3,805)
Tax effect of non-deductible items	924	(1,245)
Final tax on government securities	4,914	3,675
Prior year deferred income tax over/ (under) provision	478	(189)
Income tax credit	<u>3,615</u>	<u>(2,012)</u>
Tax payable was as follows:		
At start of year	(482)	443
Current income tax charge	(4,914)	(3,675)
Income tax paid	3,332	2,750
At end of year	<u>(2,064)</u>	<u>(482)</u>

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	2016	2015
	Shs M	Shs M
14 Cash and balances with Bank of Uganda		
Cash on hand	37,761	35,635
Other money-market placements with Bank of Uganda	8,005	-
Balances with the Central bank	<u>30,623</u>	<u>31,741</u>
	<u>76,389</u>	<u>67,376</u>
15 Deposits and balances due from other banking institutions		
Balances due from other banking institutions – Outside Uganda	55,517	97,071
Deposits with other banking institutions – Inside Uganda	<u>4,002</u>	<u>18,619</u>
	<u>59,519</u>	<u>115,690</u>
The weighted average effective interest rate on deposits and balances due from other banking institutions was 0.7% (2015: 2.2%)		
16 Government securities and derivatives	2016	2015
	Shs M	Shs M
(a) Held to maturity investments – at amortised cost		
Treasury bills		
Face value		
Maturing within 90 days of the date of acquisition	-	-
Maturing after 90 days of the date of acquisition	<u>182,602</u>	<u>79,750</u>
	182,602	79,750
Unearned interest	<u>(13,327)</u>	<u>(6,801)</u>
	<u>169,275</u>	<u>72,949</u>
Treasury bonds		
Maturing within 90 days of the date of acquisition	-	-
Maturing after 90 days of the date of acquisition	<u>16,381</u>	<u>9,595</u>
	16,381	9,595
Unearned discount	<u>(2,202)</u>	<u>(714)</u>
	<u>14,179</u>	<u>8,881</u>
	<u>183,454</u>	<u>81,830</u>

The weighted average effective interest rate on treasury bills and bonds was 15.1% (2015: 15.7%)

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16 Government securities and derivatives

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

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

	2016	2015
	Shs M	Shs M
Currency forward and swaps receivable	9,237	173,749
Currency forward and swaps payable	(9,114)	(171,546)
	<u>123</u>	<u>2,203</u>

17 Loans and advances to customers

(a) Analysis of loan advances to customers by category:

Term loans	244,080	219,956
Overdrafts	<u>54,692</u>	<u>50,819</u>
Gross loans and advances	298,772	270,775
Less: Provision for impairment of loans and advances		
- Individually assessed	(2,326)	(3,539)
- Collectively assessed	<u>(3,165)</u>	<u>(2,570)</u>
	<u>293,281</u>	<u>264,666</u>

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17 Loans and advances to customers

(a) Analysis of loan advances to customers by category:

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

	Individually assessed Shs M	Collectively Assessed Shs M	Total Shs M
Year ended 31 December 2016			
At 1 January	3,539	2,570	6,109
Provision for loan impairment	4,013	595	4,608
Amounts recovered during the year	(1,740)	-	(1,740)
Loans written off during the year as uncollectible	(3,486)	-	(3,486)
At 31 December	2,326	3,165	5,491
Year ended 31 December 2015			
At 1 January	2,468	2,599	5,067
Provision for loan impairment	7,379	-	7,379
Amounts recovered during the year	(1,382)	(29)	(1,411)
Loans written off during the year as uncollectible	(4,926)	-	(4,926)
At 31 December	3,539	2,570	6,109

The weighted average effective interest rate on loans and advances was 14.8% (2015: 16.2%)

(b) Impairment losses charged to profit or loss

	2016 Shs M	2015 Shs M
Provision for loan impairment (note 17 (a))	4,608	7,379
Amounts recovered during the year (note 17 (a))	(1,740)	(1,411)
	2,868	5,968

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	2016	2015
	Shs M	Shs M
17 Loans and advances to customers (continued)		
(c) Regulatory reserve		
Analysis as per Bank of Uganda guidelines		
Total impairment as per IFRS		
Individually assessed impairment (Note 17 (a))	2,326	3,539
Collectively assessed impairment (Note 17 (a))	<u>3,165</u>	<u>2,570</u>
	<u>5,491</u>	<u>6,109</u>
Total provisions as per BOU guidelines		
Specific provisions	2,308	2,816
General provisions	<u>3,001</u>	<u>2,856</u>
	<u>5,309</u>	<u>5,672</u>
Regulatory reserve		
At 1 January	-	(1,628)
Transfer to the regulatory reserve	<u>-</u>	<u>1,628</u>
At 31 December	<u>-</u>	<u>-</u>
18 Other assets		
Accounts receivable and prepayments	6,575	5,460
Items in transit	1,083	1,755
Other	607	895
Stationery stocks	<u>3,116</u>	<u>477</u>
	<u>11,381</u>	<u>8,587</u>

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19 Property and equipment

	Buildings Shs M	Motor vehicles Shs M	Fixtures, fittings & equipment Shs M	Work in progress Shs M	Total Shs M
Year ended					
31 December 2016					
Opening net book amount	2,786	1,303	8,704	996	13,789
Additions	-	-	-	1,789	1,789
Transfers from WIP	-	-	2,494	(2,494)	-
Transfers(reclassification)	-	-	-	(166)	(166)
Disposals	-	(173)	(412)	-	(585)
Write-offs	-	-	-	(26)	(26)
Depreciation charge	(73)	(417)	(2,766)	-	(3,256)
Depreciation on disposal	-	58	328	-	386
Net book amount	2,713	771	8,348	99	11,931
Cost	3,470	2,118	27,748	99	33,435
Accumulated depreciation	(757)	(1,347)	(19,400)	-	(21,504)
Net book amount	2,713	771	8,348	99	11,931
Year ended					
31 December 2015					
Opening net book amount	2,859	789	10,017	322	13,987
Additions	-	-	-	3,240	3,240
Transfers from WIP	-	836	1,630	(2,466)	-
Write-offs	-	-	-	(100)	(100)
Depreciation charge	(73)	(322)	(2,943)	-	(3,338)
Net book amount	2,786	1,303	8,704	996	13,789
Cost	3,470	2,291	25,667	996	32,424
Accumulated depreciation	(684)	(988)	(16,963)	-	(18,635)
Net book amount	2,786	1,303	8,704	996	13,789

20 Operating lease prepayments

	2016 Shs M	2015 Shs M
Cost		
At 1 January	3,440	3,440
Additions	-	-
At 31 December	3,440	3,440
Amortisation		
At 1 January	342	295
Charge for the year	48	47
At 31 December	390	342
Net book value		
At 31 December	3,050	3,098

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	2016	2015
	Shs M	Shs M
21 Intangible assets		
Net book amount at 1 January	4,022	3,378
Additions: Computer Software	1,112	1,815
Transfers (reclassification)	166	-
Write-offs	(203)	(6)
Amortisations	(1,142)	(1,165)
	<u>3,955</u>	<u>4,022</u>
Net book amount at 31 December		
Cost	9,744	8,669
Accumulated depreciation	(5,789)	(4,647)
	<u>3,955</u>	<u>4,022</u>

The intangible assets relate to computer software acquired to support the Bank's operations.

22 Customer deposits

(a) Current and demand deposits	234,823	207,151
Savings accounts	171,226	148,472
Fixed deposit accounts	61,000	70,430
Margin deposits	13,197	7,315
	<u>480,246</u>	<u>433,368</u>
(b) Sectoral analysis - customer deposits		
Banks and financial institutions	18,910	29,842
Private enterprises and individuals	185,839	135,543
Government and parastatals	31,128	44,716
Agriculture	16,622	7,811
Building and construction	53,104	26,549
Manufacturing	5,117	8,008
Trade and commerce	54,312	52,594
Transport and utilities	24,748	24,000
Other services	90,466	104,305
	<u>480,246</u>	<u>433,368</u>

23 Deposits and balances due to other banking Institutions

Items in course of collection	20,134	37,857
Term deposits	12,006	-
	<u>32,140</u>	<u>37,857</u>

Term deposits with other banking institutions are interest bearing. The weighted average effective interest rate on deposits and balance due to other banking institutions was 3.3% (2015: 0%)

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	2016	2015
	Shs M	Shs M
24 Other borrowings		
EIB - Private Enterprise Finance Facility	4,390	7,426
FMO - Term Facility	2,805	12,284
PROPARCO – Subordinated loan	-	2,549
BOU Agricultural Credit Facility	631	1,133
	<u>7,826</u>	<u>23,392</u>

The EIB - Private Enterprise Finance Facility relates to a line of credit granted to the Bank for financing projects to be carried out in Uganda by private enterprises or microfinance institutions in selected sectors. Each tranche of these funds attracts a fixed rate based on the twelve month average of interest rates offered by Ugandan deposit-taking banks for three months term deposits as published by Central Bank plus a margin. Each tranche has a minimum tenor of three years and a maximum tenor of ten years.

The FMO Term Facility is a line of credit granted to the Bank to on-lend to eligible sub-borrowers with matching funds provided by the Bank. The Euro denominated funds attract a floating rate of interest equivalent to the weighted average deposit rate of banks in Uganda as published by the Central Bank plus a margin. The US Dollar denominated funds attract an interest rate per annum which is the aggregate of the applicable margin and LIBOR. These funds have a tenor of five years.

The PROPARCO subordinated loan is a USD 3 million debt granted to the Bank for a term of seven years including a grace period for principal payments of five years. The loan attracts a floating rate of interest and is registered as Tier 2 Capital under the conditions prescribed by Bank of Uganda for purposes of computation of capital adequacy. This facility was fully paid off during the year.

The Bank of Uganda (BOU) Agricultural Credit Facility relates to a partnership between the Government of Uganda and commercial banks to facilitate farmers in acquisition of agricultural and agro-processing machinery and equipment. This facility attracts a fixed interest rate of 10% and has a maximum tenor of eight years.

	2016	2015
	Shs M	Shs M
25 Other liabilities		
Bills payable	318	424
Creditors	4,829	4,626
Accruals	10,913	6,589
Other	310	154
	<u>16,370</u>	<u>11,793</u>

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26 Deferred income tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable tax rate of 30%. The net deferred tax asset comprises:

	2016 Shs M	2015 Shs M
Accelerated capital allowances	(1,087)	(1,334)
Tax losses brought forward	16,058	13,780
Provisions for loan impairment	956	988
Other provisions	993	319
Unrealised translation differences	371	2,255
Prior year adjustment	-	(17)
	<u>17,291</u>	<u>15,991</u>
Net deferred tax asset	<u>17,291</u>	<u>15,991</u>

The movement on the deferred tax asset account is as follows:

At start of year	15,992	10,304
Income statement credit – current year (note 13)	<u>1,299</u>	<u>5,687</u>
At end of year	<u>17,291</u>	<u>15,991</u>

27 Share capital

	Number of shares issued & fully paid (thousands)	Ordinary shares Shs M	Share premium Shs M
2015			
Balance at 1 January 2015	34,421	34,421	14,757
Rights issue of shares	12,354	12,354	8,857
Balance at 31 December 2016	<u>46,775</u>	<u>46,775</u>	<u>23,614</u>
2016			
Balance at 1 January 2016	46,775	46,775	23,614
Rights issue of shares	-	-	-
Balance at 31 December 2016	<u>46,775</u>	<u>46,775</u>	<u>23,614</u>

The total authorised number of ordinary shares is Shs 46.7 million (2015: Shs 46.7 million) with a par value of Shs 1,000 per share.

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28 Bank shareholding

The Bank shareholders are as follows;

Shareholding:	Holding	Country of incorporation
Bank of Africa - Kenya Ltd.	43.24%	Kenya
African Financial Holding (AFH) - Ocean Indien	37.96%	Mauritius
Netherlands Development Finance Company (FMO)	11.04%	The Netherlands
Central Holdings Ltd.	<u>7.76%</u>	Uganda
	<u>100.00%</u>	

29 Analysis of cash and cash equivalents

	2016	2015
	Shs M	Shs M
Cash and Balances with Bank of Uganda (note 14)	76,389	67,376
Less: cash reserve requirement (see below)	(18,845)	(17,335)
Placements with other banks (note 15)	59,519	115,690
Amounts due from group companies (note 32(a))	<u>28,186</u>	<u>52,155</u>
	<u>145,249</u>	<u>217,886</u>

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

The Bank is required to maintain prescribed minimum cash reserve balances with Bank of Uganda for 14 day periods. The amount for a given current period, is determined as 8% of the average daily outstanding customer deposits over the previous two week cash reserve cycle period. The Cash reserve balances held while available for use in the Bank's day to day activities are only allowed to fluctuate to lower amounts not less than 50% of the mandatory 2 week average requirement on any given day provided. However, the average for such a period should not be lower than the minimum requirements, and is subject to sanctions for non-compliance.

30 Earnings per share

	2016	2015
Profit attributable to equity holders of the Bank (million Shs)	12,143	519
Weighted average number of paid up ordinary shares (thousands)	<u>46,775</u>	<u>41,864</u>
Earnings per share (expressed in Shs per share)	<u>259.60</u>	<u>12.40</u>

The weighted average number of paid up ordinary shares in 2016 is higher than 2015 at 46.8 million because as opposed to 2015 where there was a rights issue during the year, these shares were available for use by the Bank for the whole year in 2016.

There were no potentially dilutive shares outstanding at 31 December 2016 (2015: Nil).

31 Dividends

	2016	2015
	Per Share	Per Share
	Shs	Shs
	Total	Total
	Shs M	Shs M
Proposed dividends	<u>129.80</u>	<u>-</u>
	<u>6,072</u>	<u>-</u>

At the annual general meeting to be held in April 2017, a dividend of Shs 129.80 per share amounting to Shs 6 billion in total is to be proposed (2015: Nil). The payment of dividends is subject to withholding tax at rates depending on the tax status or residence of the recipient.

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32 Related party balances

The ultimate parent company of the Bank is BMCE Bank International, a Company incorporated in Morocco. There are other companies which are related to BANK OF AFRICA – UGANDA Ltd. through common directorship or shareholdings. The following transactions were carried out with related parties

	2016	2015
	Shs M	Shs M
(a) Due from group companies		
Bank of Africa – D.R. Congo	14,668	16,920
Bank of Africa – France	2,307	4,795
Bank of Africa – Kenya	6,648	13,447
Bank of Africa – Ghana	3,612	16,955
Bank of Africa – Tanzania	855	8
BMCE Bank International	96	30
	<u>28,186</u>	<u>52,155</u>
(b) Amounts due to group companies		
Bank of Africa – Mer Rouge	52,949	32,127
Bank of Africa – Kenya	108	5,834
Bank of Africa – Tanzania	5	4
Bank of Africa – D.R. Congo	281	143
Bank of Africa – Rwanda	21	-
BMCE Bank International	20	20
	<u>53,384</u>	<u>38,128</u>
(c) Related party balances		
Deposits from directors and shareholders	<u>115</u>	<u>119</u>
Loans to directors	50	5
Advances to staff	<u>5,976</u>	<u>6,705</u>
	<u>6,026</u>	<u>6,710</u>
(d) Related party transactions		
<i>Interest:</i>		
Interest paid to related parties/directors	776	798
Interest earned from related parties	<u>449</u>	<u>779</u>
<i>Directors' remuneration:</i>		
Directors' fees	513	623
Other emoluments	<u>4,124</u>	<u>3,702</u>
	<u>4,637</u>	<u>4,325</u>
<i>Key management compensation:</i>		
Salaries and short-term benefits	3,242	3,183
Terminal benefits	<u>108</u>	<u>81</u>
	<u>3,350</u>	<u>3,264</u>
<i>Expenses:</i>		
Technical support costs	<u>-</u>	<u>1,504</u>

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33 Off-balance sheet financial instruments, contingent liabilities and commitments

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

Letters of credit are commitments by the Bank to make payments to third parties, on production of documents, on behalf of customers and are reimbursed by customers. Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customers.

The following are the commitments outstanding at year end:

	2016	2015
	Shs M	Shs M
Guarantees and acceptances	-	4,233
Trade related and self-liquidating documentary credits	16,694	14,652
Performance bonds and standbys	69,350	44,395
	<u>86,044</u>	<u>63,280</u>

Non-trade contingent liabilities

There were outstanding legal proceedings against the Bank as at 31 December 2016 which arise from normal day to day banking operations. In the opinion of the directors, after taking professional legal advice, the estimated potential liability to the Bank from these proceedings is Shs 606 million (2015: Shs 520 million).

Other commitments

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for fixed periods. Commitments to

The Bank may withdraw from its contractual obligations to extend credit by giving reasonable notice to the customers.

At 31 December, these included;

	2016	2015
	Shs M	Shs M
Commitments to lend	25,663	8,339
Currency swaps and forwards payable	9,114	171,546