SETTING THE PACE IN A TECHNOLOGICALLY CONNECTED WORLD

Annual Report & Financial Statements 2016

FINANCE trust BANK

Putting Women First

Today, if you look at financial systems around the globe, more than half the population of the world - out of six billion people, more than three billion - do not qualify to take out a loan from a bank. This is a shame.

MUHAMMAD YUNUS

Bank anytime, anywhere with Trust Mobile

To access **Trust Mobile**, simply download the **Trust Mobile app** on GooglePlay or use the USSD code ***224#** and follow the prompts.

Visit any of our 36 branches countrywide and get more details about **Trust Mobile.**

@FinanceTrustBankug @financetrust

0776 932900, 0751 932900

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FINANCE trust BANK

Putting Women First

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OUR BUSINESS

About Us

Finance Trust Bank (FTB), a Tier 1 Financial institution was granted an operating license on 11th November 2013 taking over the business of Uganda Finance Trust Limited (MDI). Finance Trust Bank was first registered as an NGO in 1984 as "Uganda Women's Finance and Credit Trust Limited" which later changed its name to "Uganda Women's Finance Trust Limited" in 1997. On 12th October 2005, Uganda Women's Finance Trust Limited was licensed as a Microfinance Deposit taking Institution.

The bank offers a broad range of financial solutions, including loans, deposit accounts, money transfer services, utility bills collection and insurance services to small and medium income people companies, SMEs, institutions and net worthy individuals. Finance Trust bank is also active in trade finance and treasury services. With its headquarters in Katwe, Finance Trust Bank operates a network of 36 branches, including one at Kalangala Islands. 70% of the bank's branches are located in rural areas.

Our Vision

To be the bank of choice.

Our Mission

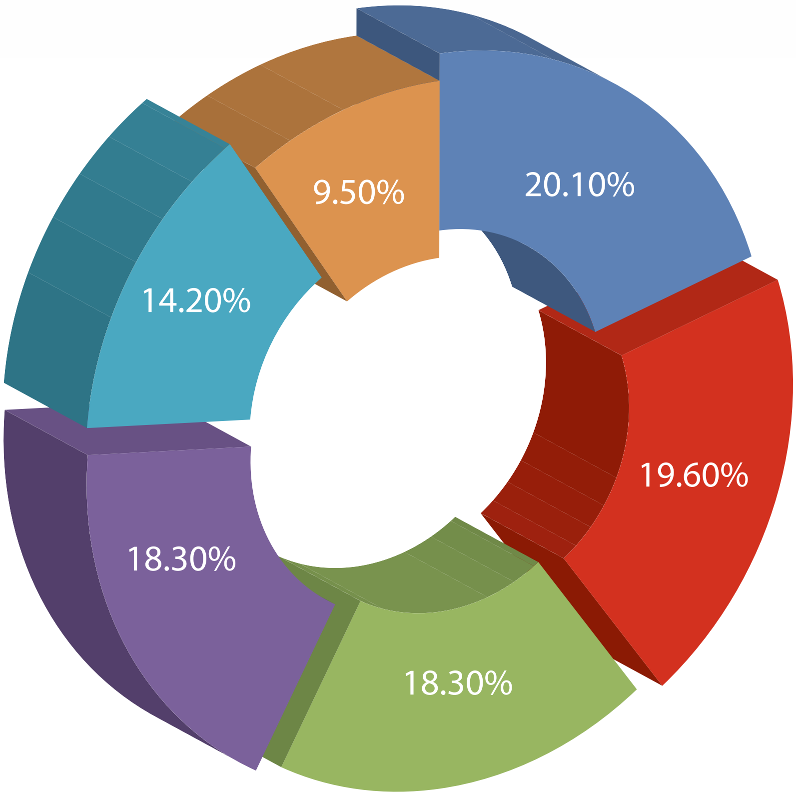
To effectively deliver innovative financial solutions to our customers and stakeholders especially women.

Our Core Values

Our core values reflect what is truly important to us as an organization:

Ownership and Capital Structure

Finance Trust Bank has a varied ownership structure comprising of international and local shareholding. The Bank shareholders are as follows:



- Uganda Women Trust
- Oiko Credit Ecumenical Development Cooperative Society U, A
- Progression Eastern African Micro Finance Equity Fund
- RIF North 1
- I&P Afrique Enterpreneurs
- Founder Members & others

Our Products and Services

DEPOSIT PRODUCTS

1 Trust Savers Accounts
Trust Savers Individual
Trust Savers Joint
Trust Savers Company
Trust Savers BIDCO
Mama's safe Individual
No Fee Individual Savings
Forex Savings Accounts

2 Trust Youth Savers Accounts
Trust Junior Savers
Girl's Choice Savings Account
Teen Classic Savings Account
Youth Progress Savings Account

3 Trust Group Accounts
Trust Group Savers
No Fee Group Savings
Mama's safe Group
SACCO Savings
Investment clubs
VSLAs

4 Current Accounts
Personal Current Accounts
Business Current account
Forex Current Accounts

5 Fixed Deposit Accounts

6 Other Savings Accounts
Staff Savings

CREDIT PRODUCTS

1 Business Loans
SME/Micro/Corporate Loans
Working capital loans
Bank Overdraft
Renewable energy for business
SACCOs and VSLA loans
Insurance Premium Finance Loan
Women in Business Loan

2 Consumer Loans
Individual personal loans
School Fees Loan
Renewable Energy Loan
Salary Loans
SmartHome Loan

3 Agriculture Loans
Agro Production Loans
Agro Processing Loans
Agro Marketing Loans
Agro Investment Loans
Women in Agriculture Loan

4 Asset Finance Loans
Land / other asset acquisition loan for non-business
Motor vehicle loans
Asset Improvement Loan

5 Trust Mobile Loan / Loan Ku Simu
(Accessed via Trust Mobile)

6 Off Balance Sheet products
Bank Guarantee
Letters of Credit

Value Added Services

- Money transfer services (through Western Union, MoneyGram, Kendy Pan African, money transfer services, EFT, RTGS)
- Mobile money services (through MTN, Airtel, Msente)
- Utility bills collection (National Water, DSTV, Umeme)
- NSSF collections, URA payments, KCCA collections
- School fees collections
- Micro-insurance (indirectly provided by our insurers)
- Mobile Banking Services

Other Services

We provide our customers with RTGS and EFT, plus many more value added services including: Western Union, MoneyGram, Kendy, Airtel Money, M-Sente, MTN Mobile Money and payments for DSTV, KCCA, URA, eWater Payment, Umeme and NSSF.

Trust Mobile banking service

Our customers can now access their accounts 24/7 anytime, anywhere, to check their account balances, get mini Statements, and transfer money from one account to another, pay bills like Umeme, Water bills, DSTV. Our customers can also deposit and withdraw money from their accounts at Finance Trust Bank through use of their mobile money service on MTN and Airtel.

Our Customers

Finance Trust Bank serves micro, small and medium entrepreneurs, salary earners and youth, who are involved in a wide range of economic activities that include;

Agriculture
This includes agricultural activities along the value chain (i.e. Production, Processing and Marketing), including crop farming, animal rearing, poultry breeding and fish breeding, processing agricultural products and marketing of agricultural produce

Services
Business service related activities e.g. Restaurants and bars, beauty shops, schools, medical centres, pharmacies etc.

Trading
Including groceries, wholesaling and retailing assorted merchandise, motor spares, clothing and textiles, timber, hardware, etc.

Manufacturing and Production
Including carpentry, tailoring and textile houses, bakeries, shoe factories, machinery, foodstuffs, beauty products, etc.

Building and Construction
Including fabrication of building materials, and construction of housing and commercial establishments.

Transport
Transportation activities and purchase of automotive devices - cars, boda bodas, trucks, for personal and commercial use.

Renewable Energy
Clean energy for domestic and commercial purposes e.g. solar, biogas, etc

Financial highlights

10%

Total assets grew by 10% from Ush151.06bn to Ush166.30bn

7%

Net loans and advances increased by 7% from Ush99.41bn to Ush106.2bn

21%

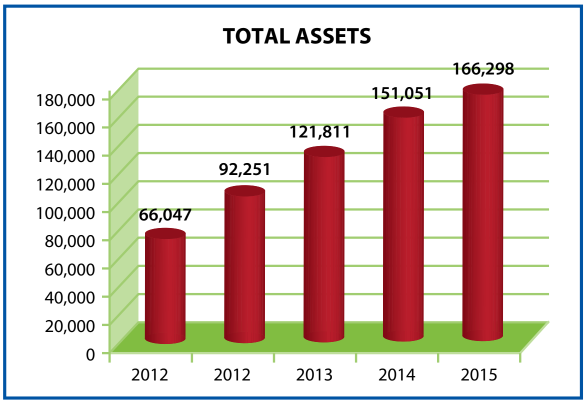
Deposits grew by 21% from Ush78.42bn to Ush95.00bn

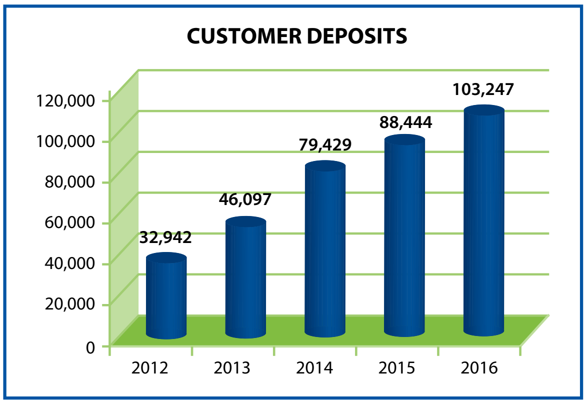
2%

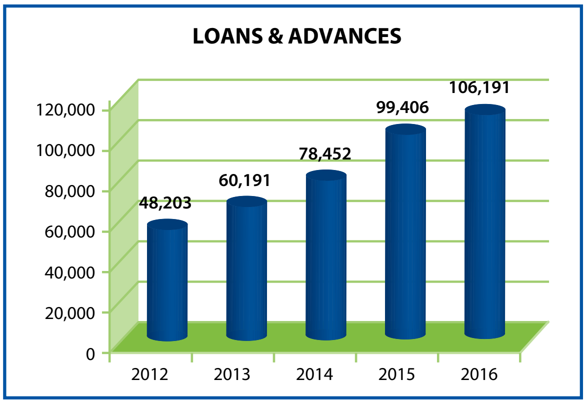
Shareholders' equity went up by 2% from Ush34.72bn to Ush35.35bn

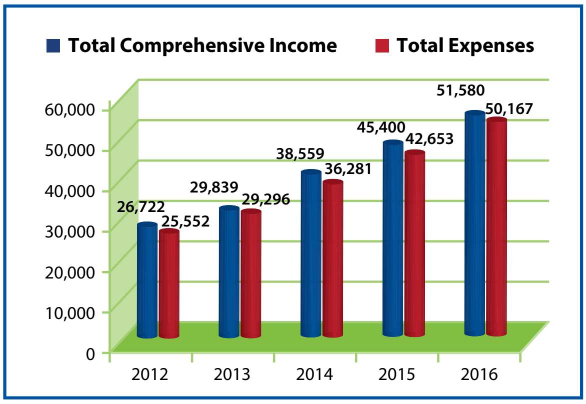
49%

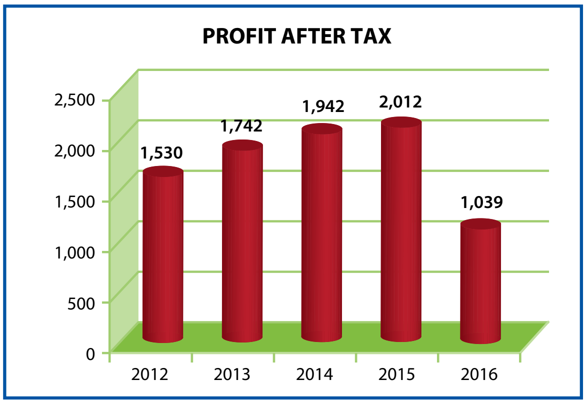
After tax profits reduced by 49% from Ush2.01bn to Ush1.03bn

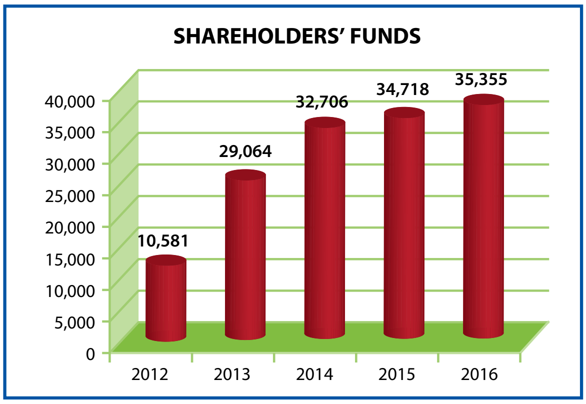












PERFORMANCE & STRATEGY

> Under the circumstances, our performance in 2016 is commendable with profit after tax of USh 1 Billion. Remarkably we grew our clients deposit base from shs 78.42billion in 2015 to shs 95.00billion in 2016 representing 21% increase"

Hon. Eng. Irene Muloni
CHAIRPERSON, BOARD OF DIRECTORS

Chairperson's Statement

Dear Shareholders,

On behalf of the Board of Directors, It is my pleasure to present to you the audited Financial Statements for the Bank for the year ended 31st December 2016. In 2016, the country experienced significant economic shocks, especially in the financial sector. The Ugandan shilling came under severe stress emanating from the ever growing external trade deficit resulting in a rapid depreciation against major foreign currencies. The year also saw the regulator, Bank of Uganda place one bank under statutory management and later into liquidation in quick succession. The closure of Crane Bank created a confidence crisis within the financial sector that was more directed at the small-tier banks. At the same time, there has been sustained pressure on banks to lower their lending rates irrespective of the rising cost of running the business.

As a player in the banking sector, Finance Trust Bank's performance was no doubt affected by the unforeseen shocks described above. I am glad to announce that the bank remained profitable and was able to withstand the unfavorable macro-economic conditions.

Operating Environment

The International Monetary Fund estimated 2016 global growth to reduce to 3.1%, down from 3.7% in 2015. The reduction in its global forecast was caused by a more subdued outlook for advanced economies following the Brexit vote.

In Uganda, consumer demand for the year fell by an estimated 3.5%, which led to a decline in economic activity. The annual headline inflation went down to 5.7% from the re-based rate of 8.4% in 2015. The decrease was due to stable prices for fuel and utilities. During the year, the Uganda shilling weakened from USD/UGX 3,375 as at 31st December 2015 to USD/UGX 3,610 as at end of 31st December 2016. The Central bank responded by reducing the central bank rate from 17% in 2015 to 12% by close of year 2016. Consequently most banks decreased their lending rates leading to a decline in the private sector credit. Treasury bill rates closed at 15.9% in December 2016 compared to 22.7% for December 2015; this in effect affected the cost of funding as much as this reduced the banks return on short term investments. The financial sector remained relatively liquid but experienced significant growth in the non-performing assets especially in the agricultural, building and construction sectors which mainly resulted from falling commodity prices, low consumer demand, delayed payment of contractors by government and uncertainty arising from the political environment.

Inflation fell to
5.7%
from 8.4% in 2015

UShs weakened
to **3,610**
from USh 3,375 in December 2015

CBR dropped to
12%
from 17% by close of 2015

Financial performance

Under the circumstances, our performance in 2016 is commendable with profit after tax of shs 1 Billion. Remarkably we grew our clients deposit base from shs 78.42billion in 2015 to shs 95.00billion in 2016 representing 21% increase. The bank also grew its loan book to Shs. 106.2billion from shs 99.41billion representing a 7% growth in 2016. Our total assets stood at Shs. 166.30billion while total equity rose to Shs. 35.35billion in 2016, representing a growth rate of 2% in comparison with Shs. 34.72billion reported in 2015.

USh 1bn
profit after tax

Our performance was in part due to our strategic approach and enhanced creativity in our service offerings with emphasis on meeting the varied needs of our customers.

Corporate Governance and Risk Management

USh 24bn
disbursed to women in 2016

With our strong robust governances and risk management framework, we are confident that interests of all stakeholders will continuously be protected and safeguarded. To ensure that the position and reputation of the Bank as a financial institution is held in good standing, we have made sure that our processes and procedures are adequate to manage the risk inherent in the banking business.

Community Engagement

In 2016, Finance Trust Bank joined the rest of the country to celebrate Women's Day that was held on 8th March, 2016. And to put our theme of putting women first to life the bank organized health wellness checkups for women in Kampala. We also launched free financial literacy to the women and youth reaching over 3,000 women. The launch of the financial literacy trainings equally witnessed the launch of a new product dubbed "Women's Choice" to support women in all their financial problems.

3,000
women trained in financial literacy

Outlook for 2017

We look forward to a more vibrant 2017 after going through successful presidential and parliamentary elctions. We shall embark on aggressive lending to businesses to enable the bank perform even better come 2017. The bank will continue to make the most of its assets especially it's people and investment in technology. The bank will continue to be well positioned to tap into the women and youth segments of the market in order to achieve its mandate.

Appreciation

On behalf of the Board of Directors, I acknowledge the significant contribution of the management team, staff and shareholders of the Bank and together pledge to continue to serve even more diligently throughout 2017. I also thank our customers that have given us a reason to keep resilient and continue to serve; your loyalty and trust is significant and well appreciated. I wish also to thank our regulators for their continued support and guidance as we make our bold strides as a full service commercial bank. Finally, I wish to thank the government for offering a condusive political, social and economic enabling environment that has propelled the financial sector and other sectors to success.

Hon. Eng. Irene Muloni
CHAIRPERSON, BOARD OF DIRECTORS

> We have transitioned from a pure NGO with very limited product range to a full-service commercial bank with a full suite of banking products catering for individuals especially women, micro and small enterprises. We have also diversified carefully to the corporates and the Government”

Annet Mulindwa Nakawunde
MANAGING DIRECTOR

Managing Director's Statement

Dear Esteemed Shareholders,

2016 is the third year of our operation as a full service commercial Bank. Despite the difficult prevailing macro-economic conditions that impacted the banking industry negatively, the Bank saw a growth in performance on several parameters. The bank also reviewed its product offering to its customers, adopted other ways of service delivery specifically to increase access and target other market segments.

Bank's Performance

During the year net income grew by 10.7% from shs 38.3 billion in 2015 to shs 42.4 billion in 2016 while operating expenses increased from shs 35.8 billion in 2015 to shs 41.0 billion in 2016.. Profitability stood at shs 1.03billion in 2016.

The Bank's total assets grew by 10% from shs 151.06billion in 2015 to shs 166.3bn in 2016. Net loans and advances grew by 7% from shs 99.4 billion in 2015 to shs 106.2billion in 2016. Investments slightly reduced from shs 15.3 billion in 2015 to shs 14.6billion in 2016.

The number of savers increased from 353,452 in 2015 to 360,928 in 2016. This constitutes a 2.1% increase in the number of savers. There was a 13.5% reduction in number of borrowers. We closed 2016 with 24,588 borrowers down from 28,424 in 2015. This was due to discontinuation of the group lending methodology

The staff numbers grew marginally to 632 as at close of the year 2016 from 604 in the year 2015. This was aimed at improving the productivity of staff and manage the Bank's operation costs while meeting the operating capacity of the Bank.

Product Offering and Partnerships

In 2016, The Bank launched the Women's Choice range of loan products. Women, since inception of the Bank were served with a broad range of products and services but these products and services in some cases would not meet the exact need for which a woman was seeking financing. Market research was carried out that saw the development of 10 specific schemes/products just for women. The Women's choice loans replaced the Mama Safe loans for groups and individual women. These products were rolled out in all Finance Trust Bank branches. The Women's choice product offering was launched together with the Annual financial literacy workshops that were held in all regions where our branches are located. By end of year, the total women's portfolio across all products stood at Shs. 24,642,761,029 which constitutes 35% of the Bank's credit portfolio.

Also in 2016, Finance Trust Bank in partnership with Uganda Energy Credit Capitalization Company (UECCC) launched the Solar Yange loan in a press conference in Kampala and 2 product activations in Finance Trust Bank branches of Arua and Gomba. Renewable energy loans are offered to customers across our 36 branches to increase their access to clean energy. To this effect, Finance Trust Bank received funds from UECCC at subsidized rates for on lending to our customers at competitive rates and has partnered with solar loan providers who are certified by UECCC. These partnerships have allowed our customers get access to genuine solar products for individual and commercial use.

Finance Trust Bank in partnership with Habitat for Humanity carried out research on the housing needs of the customers. This research led to the development of the Smart Home loan housing product that allows customers acquire loans to build or complete their housing projects, provide proper water and sanitation facilities for their families or commercial establishment.

The Bank launched the Trust Care Hospital cash insurance service which allows our loan customers to contribute a small monthly premium for the duration of their loan. The hospital cash is claimed by our customers who may spend a night or more to up to 40 nights in a year and these customers get 80,000 per night after they have been discharged. This product was launched with support from Women's World Banking.

Finance Trust Bank has partnered extensively with various partners to provide more specific value driven products to its customers as a way to meet the needs of its customers both financial and non- financial needs. These partnerships will be guarded well even for future endeavors.

Financial literacy

In 2016, Finance Trust Bank launched its Annual Women's Financial literacy programs with its maiden workshop in Kampala. The literacy workshops were held in major towns across the country in Kampala, Jinja, Mbale and Mbarara. These workshops were just the major meetings even though several other groups of women received Financial literacy in smaller groups across the year. Key to note was the extensive investment of funds in financial literacy in Busoga region with various partners. In 2016 alone, over 100 million shillings was spent on the financial literacy program to facilitate trainers, training tools and other logistics needed for this program. Over 8000 women consisting of customers and non-customers received Financial literacy from this program.

Outreach

Finance Trust Bank has a network of 36 branches and is a member of the Interswitch. Interswitch platform gives our customers access to over 300 ATMs across the country. In 2016 the Bank installed an 4 ATMs in Kampala (at Katwe branch), Kijura and Mabale in Kijurs, and Maddu in Gomba. The Bank has continued to reach out to communities using a secure mobile van that collects deposits from customers, enables customers to pay their bills outside the traditional branch set up.

Embracing Technology

In upholding its value of innovation, Finance Trust Bank partnered with Kalangala Infrastructural Servicers (KIS) to enable residents of Kalangala pay for their power through Finance Trust Bank over the teller points but also through Trust Mobile the Mobile Banking application. The Trust Mobile Banking application has been further enhanced to allow our customers make utility payments for Kampala Capital City Authority (KCCA) and Uganda Revenue Authority (URA) payments Anytime Anywhere. The transactions reflect in the partner's systems real time.

Outlook for 2017

The first 3 years as a commercial bank saw Finance Trust Bank make extensive investments in technology to improve our customers' experience and improve access. In 2017, the Bank will focus on leveraging this technology to get a return on the huge investments made thus creating value for our various stakeholders. Finance Trust Bank now has over 60,000 customers enrolled on our Trust Mobile banking platform and our goal is to see majority of them utilizing the mobile banking platform for all their banking needs.

In line with a new vision, mission, values and a commitment to improving performance, the Bank has adopted a 3-Year Strategic Plan dubbed 'Exceling in the Digital Age' anchored on the four strategic themes that are our pillars of excellence. The Bank shall aim at maximizing shareholder value through delivery of innovative products and services to customers in a friendly, efficient and controlled environment. We shall remain focused on the microfinance business while carefully diversifying into the SME and Commercial segment to address the growing financial needs of our customers. We shall also remain relevant to the women and the youth by continuously innovating products and services that address their changing financial needs.

The vision and mission of the bank have been refined. The vision is "To be the bank of choice". The mission is "To efficiently deliver innovative financial solutions to our customers especially women". In addition to becoming the bank of choice, the Bank will focus on maximizing shareholder value and to achieve this objective, the Bank will pay emphasis on consistent growth in the customer base, quality assets, source for low cost funding liabilities and good governance. Through this strategic plan, the Bank will help increase household incomes of its customers and also work with Partners with a shared mission and vision to deliver value to all stake holders.

Conclusion

I wish to express my sincere gratitude to our Customers and the Board for their unwavering support throughout the years. Finally to my Management Team and Staff, let us pursue everything with energy, drive and finish strong and not just to cross the finish line.

Thank You.

Anne Mulindwa Nakawunde
MANAGING DIRECTOR

Executive Management Team

Annet Nakawunde Mulindwa
MANAGING DIRECTOR

Dennis Kakeeto
EXECUTIVE DIRECTOR

Patricia Kemirembe Katende
COMPANY SECRETARY/ HEAD, LEGAL

Annette Kiggundu
HEAD, TREASURY

Sarah Gwokyalya
Ag. HEAD
INTERNAL AUDIT

Rachel Nantongo
HEAD OPERATIONS

Percy Lubega
HEAD BUSINESS DEVELOPMENT

Stella Naigulu
HEAD HUMAN RESOURCE

Anthony Gumira
HEAD CREDIT

Christine Namata
HEAD FINANCE

George Musaanya
HEAD ICT

Mwanje Charles Mark
HEAD RISK

Evarest Nsereko Kyewalabye
COMPLIANCE MANAGER

BUSINESS & OPERATIONAL REVIEW

Business Development Department

The Business units within the department are;

1. Research & Product Development
2. Marketing Communication, Branding and PR
3. Business Development
4. Projects
5. Delivery Channels
6. Customer Service/ Call Centre

The following is being done;

1. The Retail Banking business line consists of Personal Banking (individuals including civil servants) and Business Banking (micro, small & medium sized enterprises). We provide a full range of lending, transactional and savings solutions, supported by strategic investments in technology to enhance our services.

2. The department has also been incharge of deposits through setting sales goals and monitoring progress and ensuring that targets and objectives are met.

3. The use of technology has been instrumental to the bank's achievements in 2016. The Bank continued to provide its customers with alternative onboarding and transactional channels through the use of Trust Mobile.

The department is set to continue designing and developing customer specific solutions whilst increasing customer engagements. It will also continue utilizing the modern technological platform to ease the banking hassles for our customers.

Credit Department

In a bid to directly focus on Agribusiness across the value chain, the Agribusiness unit was set up as a distinct credit unit. During the year, the Agribusiness unit extended financing to smallholder farmers through Agriculture Marketing Cooperatives (AMCOS); emerging farmers; commercial farmers; processors and agri-traders. The crop financing was mostly provided for cashew nut production, tobacco growing and coffee through agriculture input financing schemes and the Warehouse Receipt System.

The Agribusiness unit's strategy, going forward, will be to increase the number of crops for which we provide financing and to make use of value chain financing as a strategic approach to expanding our participation in the sector.

The Operations Department

The operations department has been responsible for running the bank's business successfully. The department has the ultimate accountability for profit and loss, and also seeks to maximize return on investment for the shareholders. The bank was able to increase its service network by adding new 4 new ATMs in Kijura, Mabale, Maddu and Katwe.

Human Resource Department

In 2016, a total of 94 appointments were made of which 22.3% were internal candidates. This reflects our belief in growing our people and promoting internally. As at 31st December 2016 the bank's staff turnover was 12.1% per quarter, slightly above the industry average of 10%.

Other departmental activities are stated under sustainability.

Finance Department

The Finance division is tasked to produce reliable periodic financial Statements for strategic decision making across various business divisions in driving their businesses.

Treasury Department

A fully functional treasury department was set up and manages the Bank's liquidity position as well as our participation in the local money and foreign exchange markets.

The bank increased it's participation on the money market causing growth in the treasury revenue as well as growth in number of foreign exchange transactions by our customers.

In 2016, foreign exchange services in US Dollars was introduced with comprehensive training of key branch staff. "FX Champions" in 6 branches i.e. Kampala Road, Kikuubo, Entebbe, Nakivubo, Central and Katwe, were tasked to amplify the level of foreign exchange business generated across our branch network for both Retail and Business Banking.

ICT Department

The ICT department is tasked with building and operating the critical technology infrastructure that underlies the Bank's operations. Furthermore, the department also provides key support services to the Bank's internal units and departments. Digitization and operational excellence remain core to our strategy. Going forward, the ICT department will be considered as a business enabler and not only support.

Risk Department

The Risk function provides independent oversight and control on the bank's operational, credit, market, compliance and other risks.

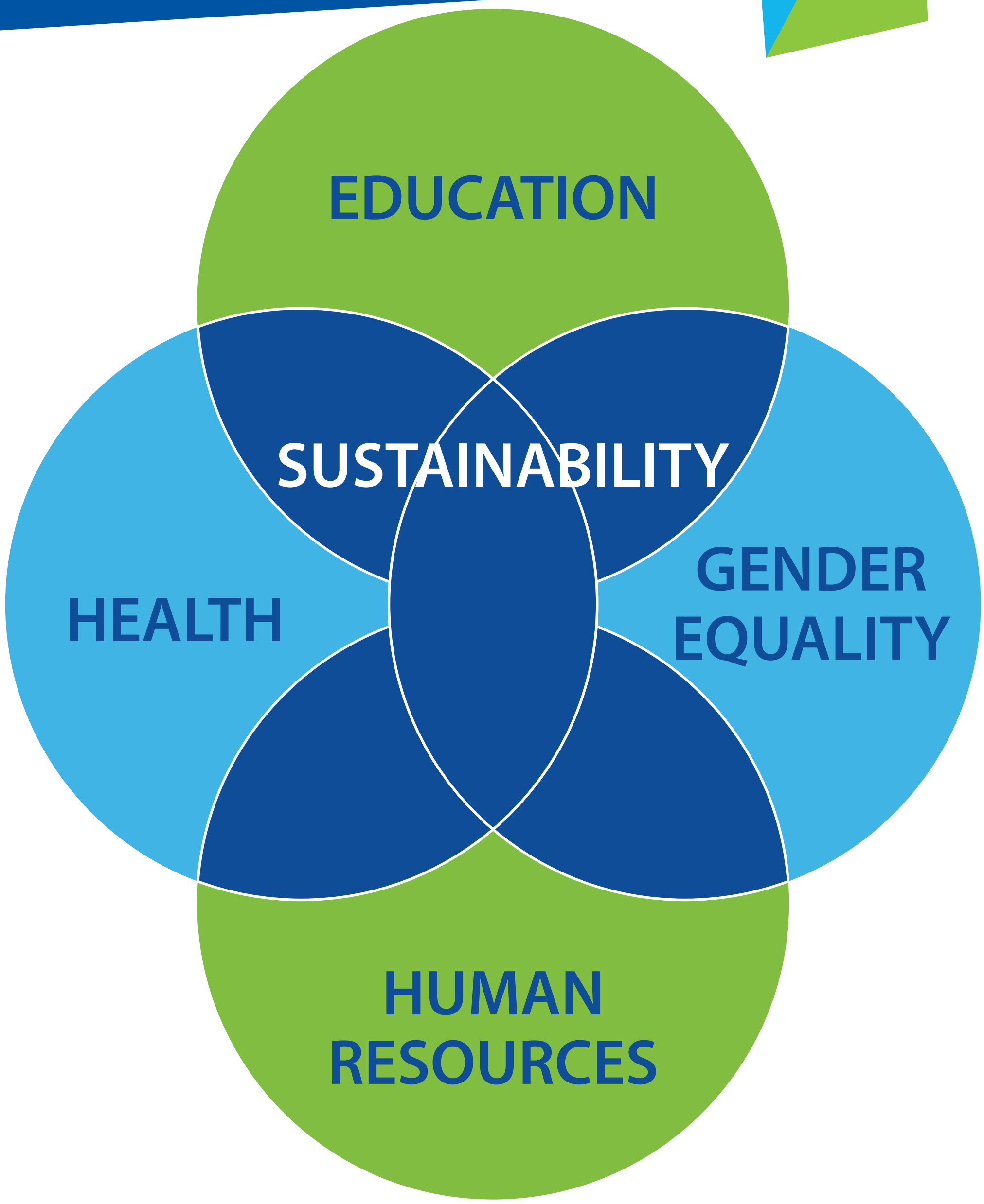
We are committed to continually re-evaluating and enhancing risk management policies and practices. In last 3 years we have implemented initiatives and developed new tools in order to mitigate some risks and further strengthen security. The Bank is now integrated with the Credit Reference Bureau (CRB) system which provides borrower information and credit history. This has also resulted in the automation of the credit reference checks.

Internal Audit Department

The Internal Audit (IA) function reports functionally to the Board of Directors through the Board Audit Committee and provides reasonable assurance and advice to the board and management as to the adequacy and effectiveness of the bank's risk management, controls and governance processes.

In line with an annual risk based audit plan, IA conducts audits of key risk areas of the bank's operations at branches and head office, and issues recommendations to improve risk management, controls and governance processes.

SUSTAINABILITY REPORT & CSR



Sustainability Report

Finance Trust Bank's strategic objectives are implemented in unison with all stakeholders involved with a view to take the Bank to posterity. Finance Trust Bank 's history as a bank started by Women for women greatly impacts the present workings of the Bank and is the reason this bank continues to thrive.

Finance Trust Bank in the last strategic plan period, 2014 to 2016, set out to improve social performance.

Finance Trust Bank in the last strategic period 2014 to 2016 set out to improve social performance. Finance Trust Bank set out to increase the number of women and youth accessing formal financial services, improve their customer experience and increase the outreach of the Bank's activities to its target market. In 2016, the bank engaged women's groups widely through the financial literacy workshops in all regions where our branches are housed. Finance Trust Bank in 2016 alone spent over 100million in organizing Women's financial literacy workshops. Over 10,000 women attended our various workshops around the country. In 2016, Finance Trust Bank saw a growth in the number of women accessing our various products and services.

In a bid to serve the women segment better, the Women's choice range of products was developed and launched to the women in the year 2016. Women's choice loans for Agriculture, home improvement, health, salary, land purchase, house purchase and renewable energy were unveiled on the market. 2829 loans were disbursed worth 8,831,413,163 shs accounting for 7% of Finance Trust Bank's disbursements in 2016.

Also in 2016, Finance Trust Bank committed to implementation of the United Nations Development Program's Gender Equality seal. By implementing the seal, Finance Trust Bank will carry out key activities to eliminate gender-based pay gaps, increase women's roles in decision-making, enhance work-life balance, enhance women's access to non-traditional jobs, eradicate sexual harassment at work, using inclusive, non-sexist communication. Finance Trust Bank's Human resource policies are very loud on ensuring that the Bank's staff are properly catered for in regard to welfare, working conditions, leave administration, maternity leave as well as ensuring women are represented in key decision making positions. Our communication as a Bank enhances the image of women and is always aspirational.

According to the National Housing Policy released by the Ministry of Finance in 2016, the housing deficit in Uganda stands at over 1.6 million housing units with over 900,000 units being substandard while over 210,000 housing units are needed in urban areas. Our customers in a bid to improve their housing conditions were found to be getting business loans and money diverted to completion of housing projects, as well as upgrading sanitation on housing units for commercial and personal use. In a bid to provide more specialized products and services to our customers, Finance Trust Bank developed the Smart Home loan in partnership with Habitat for Humanity. The Smart Home loan was piloted in both rural and urban areas before it was rolled out to all the Finance Trust Bank branches. It is believed that a more specific product range will allow customers to access the exact facility required with its other advantages as opposed to the broader range of loans that was previously on offer. In this regard, Finance Trust Bank provided a housing support service to its Smart Home loan customers.

USh
100m
spent on training women in financial literacy

10,000
women trained

USh
8.8b
disbursed through Women's Choice loans

Women's Choice loans accounted for **7%** of all loan disbursements

Finance Trust Bank in 2016, further provided Renewable energy loans under the product name Solar Yange. This was in addition the Women's renewable energy loan which is given to women at 1% lower than other customers to give women advantage in access to financing. The Solar Yange loan facility was provided in partnership with prequalified solar suppliers who possess certification from Uganda Energy Credit Capitalization Company (UECCC) as well as funding for on lending.

The growth in the product range especially for loans helped in the evident net loan portfolio growth of 7%. Finance Trust Bank keeps business growth at the helm of all its activities not forgetting the need to improve the customer experience.

Finance Trust Bank in 2016 went into partnership with various providers of services in a bid to improve our customer's experiences by giving them a one stop shop for payment of government revenues. After on boarding Uganda Revenue Authority, NSSF in 2015, It was only natural to on board KCCA – Kampala Capital City Authority so that our customers could meet their state obligations in one location. Finance Trust Bank further went into partnership with Kalangala Infrastructural Services -KIS to provide a payment location for Kalangala residents who wished to pay for the KIS power.

In addition to providing an over the counter payment solutions for payment of bills and statutory revenue to both our customers and non – customers, Finance Trust Bank enabled most of these services on the Trust Mobile Banking application for those customers who are unable to access our banking halls. Our customers can now pay their National water, Umeme, Pay TV, URA, KCCA, KIS bills through Trust Mobile banking service accessible on USSD code *224# or through the Trust mobile app accessible on Google play or App store.

Also in 2016, Finance Trust Bank added to the Trust Cash ATMs an ATM in Katwe thus growing the number of ATMs to 12. This was in a bid to provide convenience to our customers who may be want to access their accounts even after banking hours or without the inconvenience of banking hall queues. The broad range of delivery channels through which our customers access our services is core to improving our customers experience and shall remain a large part of our focus for 2017 because they are tied into our technology investments.

TRUST mobile

***224#**

12

ATMs countrywide

HUMAN RESOURCES

People Management at Finance Trust Bank

Talent Acquisition

Finance Trust Bank employed clear guidelines in the acquisition of key human resources and by end of 2016, had a pool of 610 technically proficient individuals who are able to interpret and implement the corporate strategy. A formal sourcing system ensured a young and vibrant workforce.

610
employees

Performance management

At Finance Trust Bank, performance management is implemented through monitoring of the implementation of the individual work plans with the goal of optimizing efficient use of talent. Activity plans were cascaded from the institutional scorecard to ensure completeness and inclusion of all key objectives. Monitoring performance was also done through an appraisal system that is conducted semi-annually.

> “People act in ways to maximize their self-interest within a company, so create incentives that align employee’s objectives with the organization’s mission statement. Reward compliance with core values as much as profitability, especially in the face of competitive pressures.” **Kent Alan Robinson**

Periodic performance review meetings ensured closer monitoring of performance achievement versus the budgeted position, as well as, instilled a performance-focused culture that ensured high profitability.

The core values of Excellence and Accountability oblige a culture of responsibility and efficiency in all operations of the Bank.

Training and Development

Continuous training programs are conducted to develop talent and attain a person-position fit for better results. Capacity building ensured skills enhancement at Finance Trust Bank and was conducted both in house and externally, through contracted training consultancies. These enhanced the capability of the staff to implement the strategy.

A pool of internal trainers was deployed to support the development and training of new staff, peers, through class room trainings, on job trainings, field visits etc. This was cost effective.

Staff Welfare

A competitive pay and benefits package ensured low attrition rates and minimised disruption to the business through managed employee exits.

A medical insurance cover for staff and one dependant was taken out for all staff to ensure access to proper medical treatment and rehabilitation in cases of injury, and a flexible leave policy enabled staff to ease burnout and also further their education. The quarterly HR update provided staff with seasonal HR updates on pertinent issues.

The “cultural wear” day demonstrated the diversity of the team at the bank.

Employee engagement

Employee satisfaction and engagement surveys are used to gauge the levels of employee satisfaction/dissatisfaction, commitment and informed some management decision towards addressing staff needs.

Corporate Social Responsibility

In 2016, Finance Trust Bank set out to meet the following objectives in its Corporate Social Responsibility initiatives.

- Grow Finance Trust Bank image and fulfil the expectations of its owners, employees, consumers/clients, community and the public at large.
- Help communities resolve social problems which may not be the direct outcome of our business operations.
- Assist Communities achieve the sustainable development goals.

Finance Trust Bank was able to implement its various objectives through various activities. Our theme for 2016 was "Investing in the future we want" The corporate social investment directly ties into several Sustainable Development Goals which include;

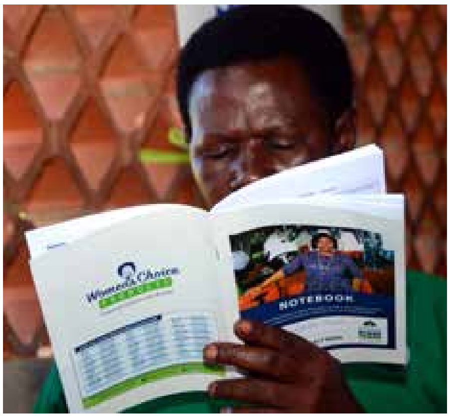
EDUCATION

Financial Literacy Workshops

In a bid to put ink to the tagline Putting Women First, Finance Trust Bank decided to launch annual financial literacy workshops for women offered free of charge. In the first year, the Bank invested over 100 million in the financial literacy workshops. The regional workshops were attended by over 3,000 women in the Kampala, Jinja, Mbale and Mbarara. In addition to this, Finance Trust Bank trained over 3,000 women in Busoga region alone in partnership with various organizations that mobilize women. Due to the success of the trainings, Finance Trust Bank has decided to hold regional workshops on an annual basis.

The purpose of the financial literacy workshops is to help women gain knowledge that will help them achieve financial success. The training touches key subjects on basic book keeping, budgeting and also addresses gender barriers in access to and management of finances. The workshops also have helped to bridge the financial knowledge gaps exhibited in debt management, as well as choice of financial products.

In addition to financial literacy, the Bank has gone a step ahead to finance entrepreneurship and skills development for women. In this regard, funds were donated to Busega Catholic Women's guild towards support of the project to train women in production of four quire books for sale as an income generating activity for the women's group.



HEALTH

Donation of Theatre bed to Mukono Health centre IV

Every business that serves human beings indeed survives if the health of its clients is good. In this regard, as a bank that focuses on the wellbeing of women, Finance Trust Bank donated an operating table, ward screens and notice board worth 8.3 million to Mukono Health Centre IV. These items were officially given to the Health centre in a ceremony that was graced by the Mayor of Mukono Town as well as the MD of Finance Trust Bank. This donation will enable the community of Mukono especially women access better health services. The operating table was donated after discovering that the one in use was broken and yet the Health centre serves over 600 women who go to deliver babies of which over 90 are C-section deliveries monthly.

Repair of Ambulance

Finance Trust Bank funded the repair of the Buyende District Ambulance. The ambulance serves all Government Health centers in Buyende district.

Future plans

Due to the tremendous success of the financial literacy workshops, Finance Trust Bank has decided to make them part of it's annual programs since the task of empowering women is at the very heart of the bank. Finance Trust Bank shall add financial literacy workshops, free health camps, and support to district sanitation programs.

GOVERNANCE AND RISK MANAGEMENT

a. Statement of Corporate Governance

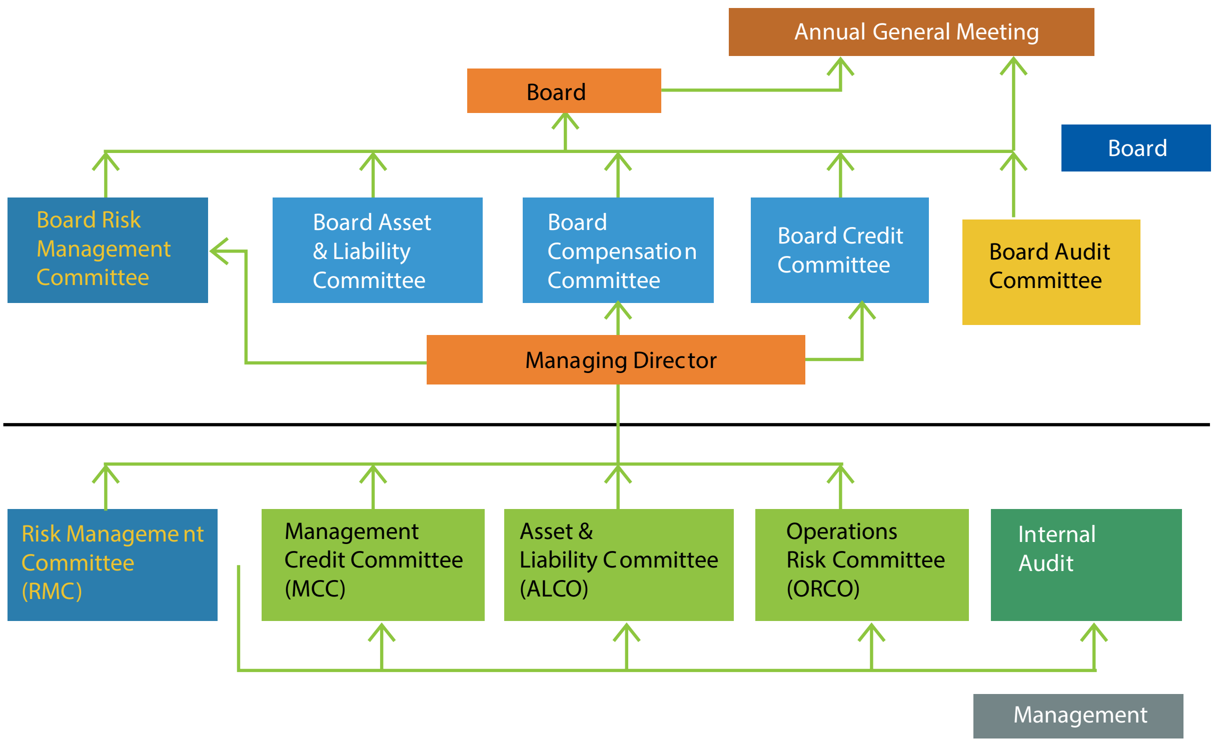
The Board of Directors

The Board of Directors is composed of highly committed persons with good expertise and a wealth of experience with a mix of local and international Directors. The Board meets quarterly and the Annual General Meeting is held once a year. The Board has 5 committees;

Governance

Finance Trust Bank's risk governance structure is comprised of the Board, Senior Management and functional risk oversight. Risk at both Board and senior management level is governed through the Board and Management Committees set up both levels respectively.

The Governance Structure



The Board Credit Committee (BCC)

The BCC is composed of a chairperson and at least three non-executive members of the board. The Board Credit Committee is charged with assisting the board in monitoring the growth and quality of the credit portfolio and to ensure compliance with regulatory requirements. The Board Credit Commitee sits quarterly and is charged with the following responsibilities:

- Deliberate and consider loan applications beyond the discretionary limits of the management commitee;
- Review loans approved by the management commitee;
- Direct, monitor reviews and consider all issues that may materially impact on the present and future quality of the banks' credit risk management;
- Ensure that the credit policy and risk lending limits are reviewed at least on an annual basis and as and when the environment so dictates;
- Reports on the bank's compliance risk on credit matters, that is the risk of legal or regulatory sanctions,

financial loss or damage to the reputation of the bank as a result of its failure to comply with guidelines and standards of good practice;
- Monitor management's compliance with all other regulatory requirements e.g. BOU Act, FIA Act, BOU PR, and circulars issued by BOU; and
- Appointing and appraising the performance of the Head of Internal Audit.

The Board Assets and Liabilities Committee (BALCO)

This is composed of a Chairperson and at least three Board members appointed by the Board. The Assets and Liabilities Committee meets quarterly and has the following responsibilities:

- Protecting the shareholders and depositor's value;
- Maintaining sufficient liquidity to cover cash flow requirements and invest idle cash;
- Maintaining an efficient balance of productive and non-productive assets, and an effective proportion of liabilities and equity for maximum profitability;
- To maintain sufficient capital to cushion against business risks; and
- To price the products in a manner that supports asset and liability management and maximizes Finance Trust Bank's earnings.

The Board Risk Committee (BRC)

The BRC ensures that the institution achieves its goals by ascertaining that it has adequate, effective and efficient systems of internal control and processes that are functioning to protect the institution's assets and minimize bank wide risks.

The BRC is comprised of a chairperson and three non-executive directors appointed by the Board. The Board ensures that every member appointed to the BRC is independent of current management and is free from any relationship that would interfere with his / her exercise of independent judgment. The committee meets on a quarterly basis and is charged with the duty of:

- Ensuring quality, integrity and reliability of the institution's overall risk management practices and helps the Board in execution of its duties in relation to corporate accountability and associated risks in terms of management, assurance and reporting;
- Reviewing and assessing the integrity of the risk control systems and ensuring that the institution's risk policies, procedures and strategies are effectively managed through reporting;
- Monitoring external developments relating to the practice of corporate accountability and reporting of specific risks, including emerging and prospective impact;
- Defining, monitoring and ascertaining the level of appetite for the institution in all its existing and prospective products and services; and
- The Committee reviews and provides independent objective oversight of the information presented by management, taking, account of risk concerns raised by management in the Audit Committee, Asset and Liability Committee meetings on financial, business and strategic risk.

The Board Audit Committee (BAC)

This is composed of a Chairperson (non-executive director) and at least three non-executive Directors appointed by the Annual General Meeting. Ultimately, Finance Trust Bank aims to ensure that at least one of the committee members has a sound financial/accounting background. The Audit committee meets quarterly and is charged with the responsibility of:

- Assuring credibility and transparency in the financial reporting process;
- Strengthening oversight of internal control and monitoring of operations;
- Assuring compliance with internal policy and all legal and regulatory requirements;
- Reviewing the effectiveness of the internal audit function and the External Auditor's proposed audit scope and approach; and
- Providing an open avenue of communication between internal audit, external audit and the Board of Directors.

The Board Compensation Committee (BCOMC)

This is composed of the Chairperson and at least three Board members. All the members on this committee are non-executive directors. The Committee meets quarterly and is charged with the responsibility of:

- Ensuring that the oversight function is effectively performed;
- Strengthening policy formulation and ensuring that Finance Trust Bank is effectively guided by adequate policy based on best practice, changing environment and the law;
- Ensuring ethical conduct, harmony and excellent performance of the management and staff;
- Formulating, reviewing upholding and entrenching the vision, mission, organizational values, philosophy and strategy in the whole organization; and
- Handles remuneration and welfare of all staff.

b. Risk Management

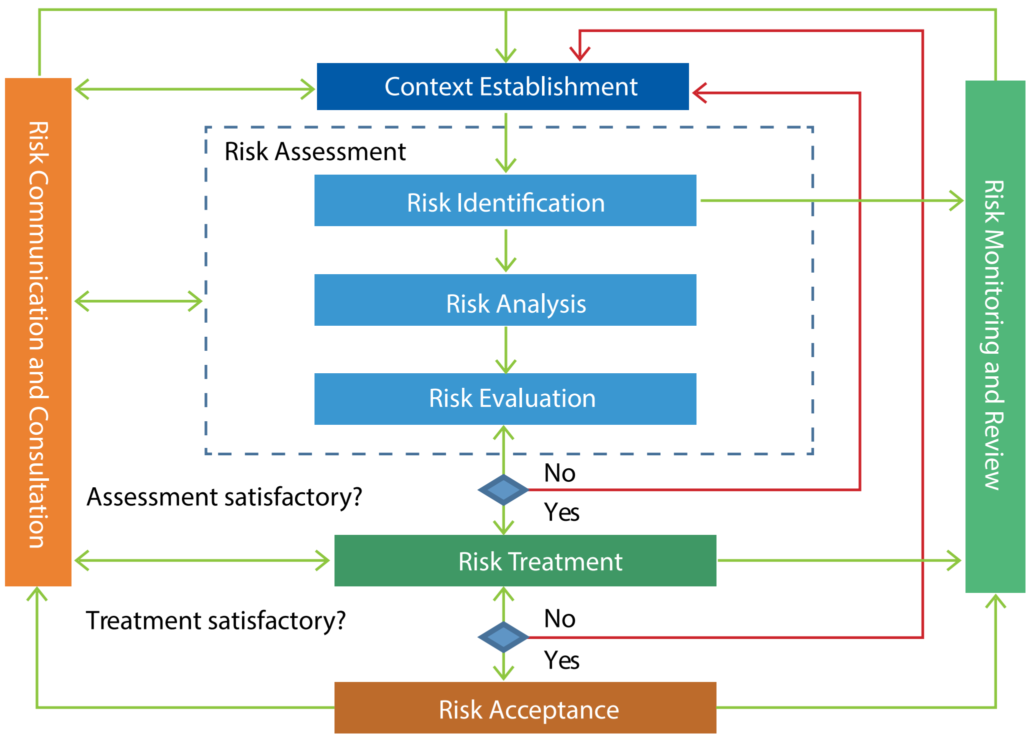
The Bank is faced with internal and external factors that influences the way we do business and make it uncertain whether and/or when the bank will achieve its objectives. The effect of this uncertainty to the achievement of the Bank's objectives is defined as a "risk".

FTBs Risk Management process

The Bank manages risk, by identifying it, analyzing it and then evaluating whether the risk should be modified by risk treatment in order to satisfy its risk criteria. Risk management in the Bank is applied at all areas and levels at all times as well as to specific functions, projects and branches.

To foster the practice of risk management at FTB in order to meet the diverse needs in the financial services industry, the Bank has adopted consistent practices and processes within its risk management framework to ensure that risk is managed effectively, efficiently and coherently through the Bank.

The Bank's risk management process comprises of following elements.



The Banks risk management process is initiated through establishment of the context of risk management. By establishing the context, the Bank articulates its objectives, defines the external and internal parameters to be taken into account when managing risk, and sets the scope and risk criteria for the remaining process.

As illustrated above, the Bank's risk management process is iterative for risk assessment and/or risk treatment activities. If the risk assessment provides sufficient evidence to actually determine the actions needed to reduce the risk to an acceptable level, the bank directly implements the risk treatment options. If there is insufficient information to determine the level of risk or the risk level projected after treatment is unacceptable, a new iteration of the risk assessment is conducted on some or all aspects of the process.

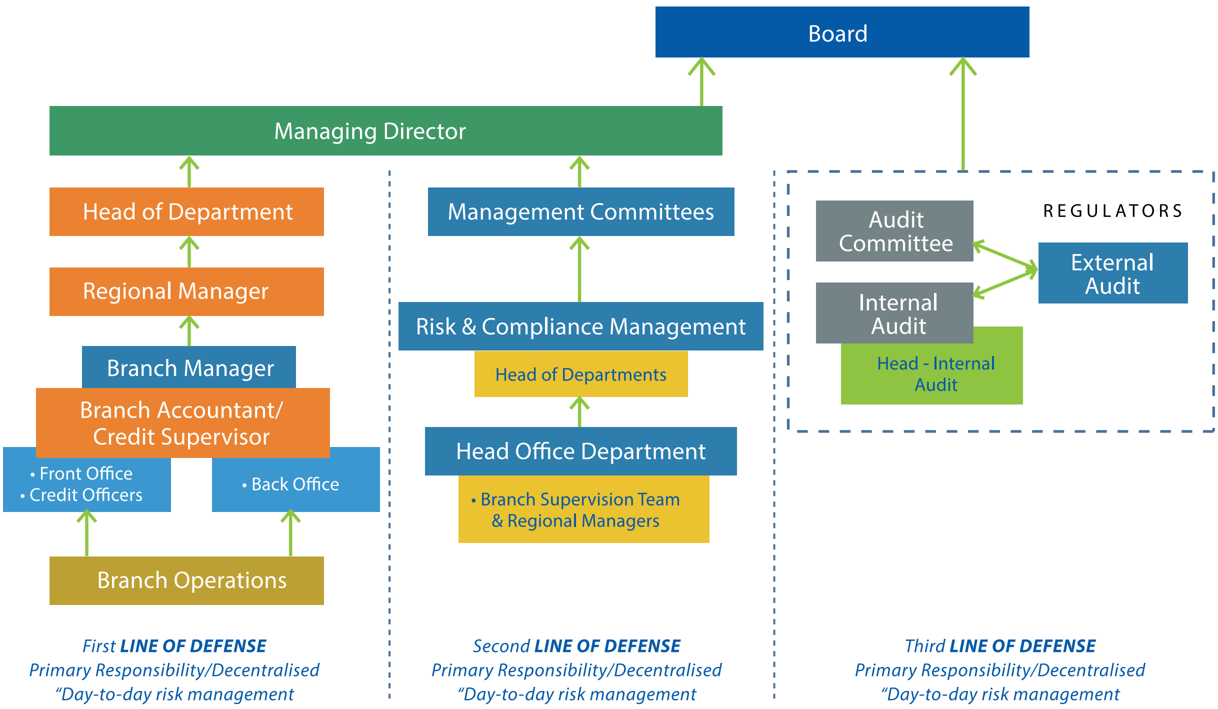
Risk communication to the stakeholders of the Bank and monitoring of risk are ongoing activities that are done through the risk assessment reports that are discussed in the monthly and quarterly management and Board risk committee meetings.

Risk Defense Mechanisms

Risk Management at the Bank is done through three levels of defense that is the Primary (1st) line of defense, the secondary and the third line of defense. Details of the defense mechanisms of the Bank are illustrated in the table below

Risk defense mechanism

RISK DEFENSE MECHANISM - ROLES AND RESPONSIBILITIES



Primary line of defense

The first line of defense is responsible for the management of risk at the point where risks are manifested and created. The bank's primary line of defense comprises all Branch operations where the day to day risk management initiatives are activated. This layer includes the activities of credit officers and all customers interfacing staff including the branch accountants, credit supervisors, Branch Managers and the Regional Managers.

Second line of defense

The second line of defense comprises of all staff with a supervisory and oversight role in the Bank. It starts with staff at the branch that have an oversight mandate over the activities of their line staff to the level of the risk management activities by the independent oversight functions (Risk management and compliance). The second line of defense also includes the different risk management committees that are responsible for the management of the various categories of risk such as operational risk, credit risk, market risk, people risk and the information and communications technological risk.

Third line of defense

The third line of defense is the 'independence assurance'. The independent assurance defense line completes the three independent defense lines used by the Bank in management and governance of risk. This component comprises of internal, external and regulatory supervision reviews. This arm provides assurance to both the Board and shareholders on level of implementation of the risk management framework and the maturity and health of the Bank's risk management systems in line with the industry practices and regulatory expectations.

Risk Management Department

To coordinate the implementation of the risk management process the Bank has in place an independent risk management function. The Risk Management Department on a pro-active basis identifies, analyses, evaluates and develops treatment options and risk acceptance criteria for the available options. The risk levels are then communicated and monitored through the risk committees. The Risk Management Department ensures that the Bank takes risks that are warranted i.e. risks that are understandable, measurable, and controllable and within the Bank's risk bearing capacity to readily withstand adverse results.

The purpose of the RMD is to assist the Bank achieve its goals by ascertaining that it has adequate, effective and efficient systems of internal controls and processes that are functioning to protect the Bank's assets and minimize Bankwide risks. The Bank has put in place sound risk management systems to enable managers take good risks knowingly, reduce risks where appropriate and strive to prepare for the future that cannot be predicted with absolute certainty and ensuring that the Bank complies with internal policies and procedures within the applicable laws and regulatory requirements.

Profiles of the Board of Directors

Hon. Eng. Irene Muloni - CHAIRPERSON OF THE BOARD

Hon. Eng. Irene Muloni is the current Minister for Energy and Mineral Development in the Government of Uganda. Prior to this, she served as the Managing Director of Uganda Electricity Distribution Company Ltd (UEDCL) since April 2002. She graduated with an Honors degree in Electrical Engineering from Makerere University, Kampala, in 1986 and holds an MBA degree from Capella University, Minneapolis, Minnesota, USA (2004). She is a Certified Public-Private-Partnership Specialist, a Professional Balanced Scorecard Practitioner; and a Corporate Member of the Uganda Institution of Professional Engineers.

She also serves on voluntary basis in both Governmental and Non-Governmental Organizations; as a member to the 1st Science & Technology Advisory Group to the United Nations Economic Commission for Africa (UNECA); and a member to the Technical Committee of the Uganda Millennium Science Initiative (MSI) a World Bank Project, managed by the Uganda National Council for promoting Science & Technology (UNCST).

Irene was recently appointed to serve on the Board of Uganda Industrial Research Institute (UIRI) and the Board of Makerere University Private Sector Forum (MUPSF). She is also the Chairperson of the Board of Governors of a rural girls' school; Tunyi Girls' Secondary School. Previously, she served as Board Member for the Civil Aviation Authority of Uganda, Kilembe Mines Limited; and Uganda Polytechnic Kyambogo, now Kyambogo University. On a regional basis, she served as Vice- Chairperson for the East African Sub-Region of the African Women's Development and Communication Network (FEMNET), and Senior Fellow for the Africa Region of the Gender Advisory Board (GAB) to the UNCSTD. Irene was the Winner of the "Sarah Ntiiro Award" 2003; a recognition as a "Model of excellence" by the Forum for Africa Women Educationists (FAWE).

She is an advocate for gender equality, women's empowerment and utilization of science and technology for sustainable development.

Annet Nakawunde Mulindwa - MANAGING DIRECTOR

The Managing Director of Finance Trust Bank, Mrs. Annet Nakawunde Mulindwa is a banker by profession with over 14 years' practical experience in Banking and Microfinance. Previously she has worked in various capacities, at Finance Trust Bank as Head of Operations, and Operations & Compliance Manager. Prior to Finance Trust Bank, Annet held various key positions at Pride Microfinance and Nile Bank Ltd.

Mrs. Mulindwa holds a Masters in Business Administration majoring in Finance, a postgraduate diploma in Financial management and an honors degree in BA (Arts), She has also attended a number of trainings including Harvard Business School's Strategic Leadership in inclusive Finance, the Advanced Leadership training in Wharton Business School, University of Pennsylvania in USA, Coaching Program for Mission, Leadership and Performance By CREATIVE METIER , Oxford , England, Women in leadership by WOMEN'S WORLD BANKING CENTER FOR MICROFINANCE LEADERSHIP, New York where she got the Financial Woman's Association's Women in Leadership Award for 2008, Balance score card training and Basic banking by Institute of Bankers.

She is passionate about women and youth empowerment, as well as ensuring best practice in banking and microfinance and creating value for customers. She is result oriented and an excellent team player with strong leadership qualities.

Dennis Kakeeto - EXECUTIVE DIRECTOR

Dennis holds a Master's degree in Business Administration majoring in Finance & Accounting, and a Bachelor of Commerce degree in Accounting from Makerere University, currently enrolled for a Chartered Financial Analyst course (USA). Dennis has over 16 years' experience in Finance and Banking, having held various positions in Commercial Banks and Microfinance Institutions.

He served as the Head of Finance and Administration Uganda Finance Trust, served at Centenary Bank in Branch banking operations, Finance and Treasury, left at the level of Principal Accountant. He also served as Assistant Finance Manager, Diamond Trust Bank Uganda and as Chief Finance Officer, Pearl Microfinance Limited formerly Feed The Children Uganda.

He is a member of the Uganda Institute of Bankers, Institute of Corporate Governance of Uganda and a certified balanced score card practitioner. He has attended a leadership and diversity for innovation program at Wharton Business School, University of Pennsylvania in USA, Coaching programs for mission, leadership and performance by CREATIVE MENTIER, OXFORD England, under the women in leadership by WOMENS WORLD BANKING CENTRE FOR MICROFINANCE LEADERSHIP, New York and also attended a one year CEO Apprenticeship Program at STRATHMORE UNIVERSITY, Nairobi.

Grace Aliakai - DIRECTOR

Grace Aliakai received a Masters degree in Electronics & Electrical Engineering from Loughborough University in 1998. Mrs. Aliakai worked for a few months at Computer Point and then moved on to MTN Uganda in 1999 where she worked for nearly 8 years. At MTN she served in a number of positions including Principal Planning Engineer - Strategic Technologies, where she was in charge of the strategic planning, setup and maintenance of international roaming and interconnection of local and international networks. Mrs. Aliakai joined Warid Telecom in 2007 where she served as Manager Core Network Strategic Planning before becoming the Head of Carrier Business which position she held to 2010. Mrs. Aliakai is currently working at ATX Technology, an entrepreneurial business with the main focus on Finance.

Mrs. Aliakai is a director at a Ugandan NGO, Mentoring and Empowerment Program for young Women (MEMPROW). She is also a long standing member of the Uganda Women's Trust. Mrs. Aliakai recently joined the Board of Directors of Finance Trust Bank.

Lydia Koros - DIRECTOR

Lydia Koros is a co-founder and Managing Partner at Progression Capital Africa Ltd (PCAL). Prior to setting up PCAL she managed the establishment of a niche MFI focusing on the agriculture value chain in rural Kenya. Prior to this Lydia served as the Managing Director of Faulu Kenya Ltd, a Deposit Taking Microfinance institution, from Aug '05 until Mar '10. Under her leadership, Faulu became the first MFI to be licensed by the Central Bank of Kenya as a DTM.

She was instrumental in spearheading the M-Pesa mobile money transfer system pilot in Faulu Kenya and its utilization by Kenyan MFIs. She has served as the Chairperson of the Association of MFIs in Kenya, chaired the task force set up by AMFI to lobby for the passing of the Micro Finance Act and Regulations for Deposit-Taking MFIs as law. She successfully organized and chaired the Africa and Middle East Microcredit Summit held in Nairobi in April '10. Prior to entering the MFI sector, Lydia worked in Kenya Commercial Bank for over 18yrs in various capacities in the corporate and retail divisions of the Bank, including Head of Corporate Banking.

Lydia obtained her Bachelor of Commerce degree and an MBA degree in Strategic Management both from the University of Nairobi. She is an alumnus of both the Strathmore and the IESE Business schools.

Loïc de Cannière - DIRECTOR

Loïc De Cannière joined Incofin Investment Management as CEO in 2001.

He successfully restructured and grew the fund management company into one of the largest microfinance and impact investment fund management companies, with a very strong focus on balancing financial and social returns. Today, Incofin IM manages combined total assets of 500 M USD. Incofin IM's flagship funds are Rural Impulse Fund I & II, which are focusing on investments in rural microfinance institutions. Incofin IM's investor base comprises large private institutional investors and development finance institutions. Incofin IM has a team of 36 dedicated professionals and has offices in Belgium (Antwerp), Colombia (Bogota), India (Chennai) and Kenya (Nairobi).

Recently, Incofin IM launched "Fairtrade Access Fund", an impact investment fund providing finance to Fairtrade labelled producers organisations worldwide.

He actively promotes the inclusion of social performance parameters into microfinance and impact investments, by participating in the PIIF Steering Committee and by adhering to other initiatives, such as the Social Performance Task Force.

Before he joined Incofin, Loïc De Cannière was responsible for structured finance at the DEME Group, where he structured large port and environmental projects in Tunisia, Ghana, Nigeria, Qatar, India, Bangladesh and Taiwan. Loïc De Cannière studied economics and philosophy at the Universities of Louvain (Belgium) and Munich (Germany).

Jean-Louis de Montesquiou - DIRECTOR

Jean-Louis' career started at Banque de L'Union Européenne in Paris, then with JP Morgan in New York, Paris and London, where he co-headed the Department of International Loan Syndications. He then ran the corporate finance and banking unit of Union Bank of Switzerland in France. In 1998 he set up the French branch of UBS, which he built up to a size of 400 employees. From 2004 to 2008, as Vice-Chairman of UBS Wealth Management, he ran a program of acquisitions of European Private Banks before being involved as senior adviser in the UBS Philanthropy Department.

He obtained a Master in International and European Law and a Master in History from Paris Sorbonne University in 1975. He also holds several directorships in financial institutions, including Fides Bank Namibia, and is a board member of several charitable institutions, including EORTC and the American Library in Paris. He is also a contributor to a few magazines as well as a town councilor in Mauvezin, France.

Rtd. Justice Mary Maitum - DIRECTOR

Rtd. Justice Maitum is a qualified Barrister at Law. She was admitted as an Advocate at the High Court of Uganda. She served in various professional capacities as State Attorney, Corporation Secretary, Law Lecturer, Judge of the High Court of Uganda before she retired.

She acquired vast experience in corporate and institutional governance by virtue of having been a member of several governing boards including; Makerere University Council, Federation of Uganda Women Lawyers (FIDA), Statutory Commissions, Uganda Judges and Magistrates Association, National Association of Women Judges, Common Wealth Magistrates & Judges Association.

Lydia Ochieng - Obbo - DIRECTOR

Lydia Ochieng-Obbo is an Attorney at Law. She is a senior member of the legal profession in Uganda and consultant with broad experience in business law practice, banking, private sector institutional building and development policy research, advocacy and regulatory reform.

She is also well versed with supervision and regulation of financial institutions and serves on a number of other boards including the board of Public Procurement and Disposal of Public Assets.

Tor G. Gull - DIRECTOR

Mr. Tor G. Gull is a Director of Uganda Finance Trust Bank. He has served on a number of boards in Finland and has wide experience in banking and credit institution management. He has worked with Development projects Kenya and Tanzania as well as in South East Asia and China. He has served on a number of Boards in Finland and is currently the Managing Director of Oikocredit Development Finance Institution, Amersfoort Netherlands. He represents Oikocredit on the Board of Finance Trust Bank.

Albert Richards Otete – DIRECTOR

Albert Otete is a Certified Public Accountant (CPA – Uganda, Kenya, Rwanda, and Tanzania) with extensive and diverse experience in audit, accounting and business consulting spanning two-and-half decades. He is currently the Chief Executive Officer of J.SR Consulting Limited, a leading indigenous business advisory firm in East Africa. He has previously worked with international accounting firms (PwC and KPMG) rising to position of Senior Manager. He was Deputy Head of Finance (2 years) at Stanbic Bank Uganda and rising to Head of Internal Audit (8 years) at the same bank. He then spent 2 years overseeing Core Banking implementations within Standard Bank covering 8 countries. He is a Member of the Institute of Internal Auditors.

Albert is a Member of the Technical Committee of the Institute of Certified Public Accountants of Uganda, a committee charged with promoting compliance with professional auditing and accounting standards. Albert is also a Member of one of the Public Sector Audit Committees of the Ministry of Finance, Planning and Economic Development of Uganda.

Albert is a PhD Candidate in Business Administration with the University Institute of International and European Studies (UNIES, Netherlands) in collaboration with ESAMI Business School.

Dr. Evelyn Kigozi Kahiigi – DIRECTOR

Dr. Evelyn Kigozi Kahiigi holds PhD in Computer and System Sciences from Stockholm University, Sweden. She started her career at Nile Bank where she worked in the Operations and Computer Department. Evelyn moved to the Directorate for ICT Support, Makerere University where she was part of the pioneering team in setting up ICT infrastructure and systems. She is currently a Lecturer and Head of Department of Information Technology at the School of Computing and Informatics Technology, Makerere University.

Jeremy Hadjenberg - DIRECTOR - ALTERNATE

Mr. Jeremy Hajdenberg, born in 1975, an Investment Officer in Investor & Partner for Development (I&P), a social investment company dedicated to developing countries, especially in Africa, with a vocation to invest in micro- finance institutions and in medium size companies in partnership with their promoters and their management. Its available equity is €19 million in 2007.

Andrej Machacek - DIRECTOR - ALTERNATE

Prior to setting up Progression Capital Africa, Andrej Machacek worked as an Investment Manager at Grassroots Capital, managing the US$120m Global Microfinance Equity Fund since 2008. Andrej was a member of the investment committee and the board of the AfriCap Microfinance Investment Company during AfriCap's transition period between May '10 and Mar '11.

Before this, Andrej spent 2 years at a venture capital incubator firm, assisting entrepreneurs in refining their business models and in helping them achieve commercial scale. As a Vice President in Deutsche Bank's Global Markets division, Andrej spent 5 years working with the bank's Capital Markets, Leveraged Finance, Financial Sponsors and Mergers & Acquisitions departments, providing the bank's clients with traditional as well as structured equity and debt funding solutions through public as well as private capital markets and advising corporates on how to manage their foreign exchange, interest rate, commodity price and other balance sheet and P&L risk exposures.

Andrej obtained his Bachelor of Arts degree in Economics and Management from Balliol College, Oxford and an MBA from Harvard Business School. He is an Open Society Foundation and Dulverton Trust scholar.

David Senoga - DIRECTOR - ALTERNATE

David Ssenoga has 27 years' experience in banking, Microfinance, auditing and financial reporting. He holds a Master's of Science Degree in Finance and Accounting, and a Bachelor's Degree in Commerce, of Makerere University- Kampala. He holds a CPA and is an active member of ICPA(U) and is the appointed auditor of the Institute of Certified Public Accountants of Uganda (ICPAU). He also serves on Makerere University Retirement Benefits Scheme Trustee Board as the Chairperson of the Scheme's Audit Committee. Currently he is a practitioner at SDS & Company Certified Public Accountant. Previously he practiced at partner level at Kisaka & Company Certified Public Accountants for 10 years.

Patricia Kemirembe Katende - COMPANY SECRETARY / HEAD, LEGAL

Patricia Kemirembe Katende has 10 years of professional experience in law and in-house legal counsel services. She is a Charted Corporation Secretary, a member of the Institute of Chartered Secretaries and Administrators (ICSA) UK, a holder of an honors Bachelor's Degree in Law from Makerere University a post graduate diploma in legal practice from the Law Development Centre, Kampala. Patricia is an enrolled Advocate of the High court and all courts subordinate to it. She holds a valid Law practicing certificate. Patricia is a member of the following professional bodies; The East African Law Society, The Uganda Law Society, The Institute of Corporate Governance of Uganda, ICSA Uganda Chapter and ICSA International. She has also attended various professional trainings in continuous legal profession development and in Corporate Governance.

Patricia has worked with Uganda Microfinance Limited and Centenary Bank at senior levels. She is a good team player and passionate about law and banking.

Corporate Information

Registered office

FINANCE TRUST BANK LIMITED
Block 6, Plot 121 & 115 Katwe
P. O. Box 6972
Kampala

Auditor

PricewaterhouseCoopers

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

Company Secretary

Mrs. Patricia Kemirembe Katende
FINANCE TRUST BANK LIMITED
Block 6, Plot 121 & 115 Katwe
P. O. Box 6972
Kampala

Branches

HEAD OFFICE	KIKUUBO	NTUNGAMO
CENTRAL	LWENGO	KAMWENGE
ENTEBBE	GOMBA	KABAROLE
MUKONO	JINJA	KIJURA
LUGAZI	IGANGA	ARUA
KAYUNGA	KAMULI	MASAKA
BUGIRI	KATWE	BUSIA
NAKIVUBO	TORORO	KALERWE
MBALE	OWINO	KUMI
KAMPALA ROAD	SOROTI	KITINTALE
PALLISA	KALANGALA	KAPCHORWA
NATEETE	MBARARA	NANSANA
ISHAKA		

FINANCIAL STATEMENTS

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Director's 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 FINANCE TRUST BANK LIMITED ("the Bank").

PRINCIPAL ACTIVITIES

The Bank is engaged in the business of banking and the provision of related services as licensed to do so under the Financial Institutions Act.

RESULTS AND DIVIDEND

The profit for the year of Shs 1,039 million (2015: Shs 2,012 million) has been taken to retained earnings. The directors do not recommend payment of dividends for the year ended 31 December 2016 (2015: 402 million).

DIRECTORS

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

Hon. Eng. Irene Muloni	Chairperson
Mrs Annet Nakawunde Mulindwa	Managing Director
Mr. Dennis Kakeeto	Executive Director
Mrs. Grace Namulinda Aliakai	Non-Executive Director
Mrs. Lydia Ochieng Obbo	Non-Executive Director
Justice Mary I.D Maitum	Non-Executive Director
Mr. Jean-Louis de Montesquiou	Non-Executive Director
Mr. Tor G. Gull	Non-Executive Director
Mr. Loic De Cannie're	Non-Executive Director
Mrs. Lydia Koros	Non-Executive Director
Mr. Jeremy Hadjdenberg	Non-Executive Director – Alternate to Mr. Jean-Louis de Montesquiou
Mr. David Ssenoga	Non-Executive Director – Alternate to Mr. Tor G. Gull
Mr. Andrej Machacek	Non-Executive Director – Alternate to Mrs. Lydia Koros
Dr. Evelyn Kigozi Kahiigi	Non-Executive Director
Mr. Albert Richard Otete	Non-Executive Director

AUDITOR

The Bank's auditor, PricewaterhouseCoopers Certified Public Accountants continues in office in accordance with the provisions of Section 167(2) of the Ugandan Companies Act and Section 62 (3) of the Financial Institutions Act.

By order of the Board

Secretary
21 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 in the manner required by 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 have been prepared in the manner required by 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.

HON. ENG. IRENE MULONI	RTD. JUSTICE. MARY MAITUM	ANNET N. MULINDWA
Board Chairperson	Director	Managing Director

21 March 2017

Independent Auditors' Report

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF FINANCE TRUST BANK LIMITED

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 Finance Trust Bank Uganda Limited ("the Bank") 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 Finance Trust Bank Uganda Limited set out on pages 8 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 annual report and 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 Bank 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.

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;
- 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; and
- 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 Company, so far as appears from our examination of those books; and

iii) the Company'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.

PricewaterhouseCoopers

Certified Public Accountants

Kampala

26 April 2017

Statement of Comprehensive Income

	Notes	2016 Shs 000	2015 Shs 000
Interest income	5	33,128,951	27,938,503
Interest expense	6	(9,153,235)	(6,876,147)
Net interest income		23,975,716	21,062,356
Impairment losses on loans and advances	16 (b)	(2,769,781)	(1,744,390)
Net interest income after loan impairment charges		21,205,935	19,317,966
Fees and commission income	7	16,938,864	16,274,794
Net foreign exchange gains	8	143,427	251,683
Other operating income	9	1,368,654	935,234
Operating expenses	10	(38,243,992)	(34,032,095
Profit before income tax		1,412,888	2,747,582
Income tax expense	12	(385,999)	(735,454)
Profit for the year		1,026,889	2,012,128
Other comprehensive income	33	11,982	-
Total comprehensive profit income for the year		1,038,871	2,012,128
Earnings per share - basic and diluted (Shs per share)	30	37	72

Statement of Financial Position

	Notes	2016 Shs 000	2015 Shs 000
ASSETS			
Cash and balances with Bank of Uganda	13	18,516,850	17,612,687
Deposits and placements with other Banks	14	12,983,430	14,354,461
Government securities	15	7,455,065	944,738
Loans and advances to customers	16	106,190,959	99,405,575
Other assets	17	6,298,827	4,063,414
Current income tax recoverable	12	340,600	238,543
Deferred income tax asset	25	173,988	438,104
Property and equipment	18	9,364,489	10,522,889
Operating lease prepayments	19	1,178,449	893,731
Intangible assets	20	3,795,606	2,576,877
Total assets		**166,298,263**	**151,051,019**
EQUITY AND LIABILITIES			
Liabilities			
Customer deposits	21	95,001,566	78,419,204
Deposits and balances due to other banking institutions	22	8,245,199	10,025,004
Borrowings	23	19,845,915	21,484,818
Finance leases	26	110,283	252,255
Current income tax payable		86,601	-
Other liabilities	24	7,653,968	6,151,708
Dividends payable		256	-
Total liabilities		**130,943,788**	**116,332,989**
Equity			
Share capital	27	27,785,402	27,785,402
Regulatory credit risk reserve	16 (c)	1,228,953	1,273,360
Retained earnings		6,328,138	5,256,842
Available for sale fair value reserve		11,982	-
Proposed dividends		-	402,426
Total equity		**35,354,475**	**34,718,030**
Total equity and liabilities		**166,298,263**	**151,051,019**

The financial statements on pages 50 to 100 were approved for issue by the Board of Directors on 21 March 2017 and signed on its behalf by:

Director

Director

Managing Director

Secretary

Statement of Changes in Equity

	Notes	Share capital Shs 000	Share premium Shs 000	Regulatory reserve Shs 000	Retained earnings Shs 000	Proposed dividends Shs 000	Available for sale fair value reserve Shs 000	Total Shs 000
Year ended 31 December 2015								
At 1 January 2015		**26,982,973**	**802,429**	**1,067,937**	**3,852,563**	-	-	**32,705,902**
Comprehensive income:								
Profit for the year		-	-	-	2,012,128	-	-	2,012,128
Other comprehensive income		-	-	-	-	-		-
Total comprehensive income		-	-	-	2,012,128	-	-	2,012,128
Transactions with owners:								
Transfer to regulatory reserve		-	-	205,423	(205,423	-	-	-
Rights issue		802,429	(802,429	-	-	-	-	-
Proposed dividends	34	-	-	-	(402,426	402,426	-	-
At 31 December 2015	**27**	**27,785,402**	-	**1,273,360**	**5,256,842**	**402,426**	-	**34,718,030**
Year ended 31 December 2016								
At 1 January 2016	**27**	**27,785,402**	-	**1,273,360**	**5,256,842**	**402,426**	-	**34,718,030**
Comprehensive income:								
Profit for the year		-	-	-	1,026,889	-	-	1,026,889
Other comprehensive income		-	-	-	-	-	11,982	11,982
Total comprehensive income		-	-	-	1,026,889	-	11,982	1,038,871
Transactions with owners:								
Transfer from regulatory reserve		-	-	(44,407)	44,407	-	-	-
Dividends paid	34	-	-	-	-	(402,170	-	(402,170
At 31 December 2016	**27**	**27,785,402**	-	**1,228,953**	**6,328,138**	**256**	**11,982**	**35,354,731**

Statement of Cash Flows

	Notes	2016 Shs 000	2015 Shs 000
Cash flows from operating activities			
Interest receipts		32,773,444	27,710,352
Interest payments		(9,109,012)	(6,192,729)
Net fee and commission receipts		16,858,401	16,403,357
Other income received		572,749	623,176
Recoveries from loans previously written off	9	619,357	393,636
Payments to employees and suppliers		(34,415,660)	(31,658,262)
Income tax paid	12	(239,396)	(39,296)
Cash flows from operating activities before changes in operating assets and liabilities		**7,059,883**	**7,240,234**
Changes in operating assets and liabilities:			
- loans and advances	16	(8,979,584)	(22,725,250)
- other assets	17	(2,235,413)	(898,068)
- customer deposits	21	16,582,362	7,904,136
- deposits due to other banks	22	(1,779,804)	1,111,206
- other liabilities	24	1,892,592	857,466
- government securities	15	(6,510,327)	(944,738)
Net cash generated from operating activities		**6,029,709**	**(7,455,014)**
Cash flows from investing activities			
Decrease in placements with other banks	14	209,920	1,562,570
Purchase of property and equipment	18	(2,153,796)	(5,112,939)
Purchase of intangible assets	20	(1,887,081)	(1,123,059)
Proceeds from sale of property and equipment		27,094	14,171
Net cash utilized in investing activities		(3,803,863)	(4,659,257)
Cash flows from financing activities			
(Repayment)/proceeds of borrowings	23	(1,780,874)	16,057,087
Change in designated funds	24	(578,775)	537,885
Change in capital grants	25	279,026	474,517
Dividends paid to shareholders		(402,170)	-
Net cash utilized from financing activities		**(2,482,793)**	**17,069,489**
Net (decrease)/ increase in cash and cash equivalents		**(256,947)**	**4,955,218**
Cash and cash equivalents at start of year	29	24,627,165	19,671,947
Cash and cash equivalents at end of year		**24,370,218**	**24,627,165**

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:

Block 6, Plot 121 & 115 Katwe
P. O. Box 6972
Kampala

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 thousand (Shs 000).

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. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- Other comprehensive income arising from investments accounted for under the equity method – the share of OCI 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 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.

(ii) New standards and interpretations not yet 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 Bank, except the following set out below:

IFRS 9, 'Financial instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2015. 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 OCI and fair value through P&L. 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 OCI not recycling. 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. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers'

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 and earlier application is permitted. The Bank is assessing the impact of IFRS 15.

IFRS 16, 'Leases'

After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. 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. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

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. 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.

(ii) New standards and interpretations not yet adopted (continued)

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 standards 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 Bank.

(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 income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

(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.

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 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 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.

(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; (e) the disappearance of an active market for that financial asset because of financial difficulties; or

(v). 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:

(vi). adverse changes in the payment status of borrowers in the portfolio; and

(vii). 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 3 months and 6 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.

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 decrease the amount of the provision for loan impairment 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%
b) Doubtful loans and advances with arrears period from180 to 364 days – 50%; and
c) Loss with arrears period exceeding 364 days – 100% provision

2) General provision of 1% of credit facilities less 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.

(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 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 while leased buildings (including leasehold improvements) are depreciated on a straight line basis over the shorter of the estimated useful life and the remaining lease term.

Depreciation on other assets is calculated on reducing balance at annual rates estimated to write off the carrying values of assets over their expected useful lives.

The applicable depreciation rates of items of property and equipment are as follows:

Leased Buildings	*Over the lease term*
Motor vehicles	25%
Office equipment	20%
Computer Hardware	33.3%
Fixtures and fittings	12.5%

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.

(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 they are 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.

(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. A defined benefit plan is a retirement benefit plan that is not a defined contribution plan and defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

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

(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, of 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.

(a) Deferred income tax asset

In 2016, the Bank recognised a deferred tax asset of Shs 173 million in respect of accumulated tax losses based on management's projections that sufficient taxable profits will be generated in the foreseeable future against which the deferred tax asset will be utilised. The deferred tax asset has been maintained in the balance sheet with an assumption that the bank will remain profitable based on the projected growth in earning assets, decrease in the cost of funds, decrease in the cost to income ratio and increase in customer deposits.

(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. For the entire loan portfolio, 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 bank historical loss experience to arrive at the credit loss ratio. Credit loss ratios were computed per product line to reflect variations in product characteristics and this was on the basis of bank data over a period of 4 years.

(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.

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. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Risk management is carried out by the Treasury department under policies approved by the Board of Directors. 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.

(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 in the credit risk management team in the Risk department, which reports regularly to the Board of Directors.

(i) Credit risk measurement

Loans and advances (including commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. 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. Clients of the Bank are segmented into four rating classes.

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

Bank's internal ratings scale

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 approved 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 and;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

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.

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:		
	2016 Shs 000	**2015 Shs 000**
Placements with other banks (Note 14)	**12,983,430**	7,339,982
Loans and advances to customers (Note 16)	**108,229,450**	100,888,508
Government securities (Note 15)	**7,455,065**	944,738
Other assets (Note 17)	**5,328,112**	3,060,357
	133,996,057	112,233,585
Credit risk exposures relating to off-balance sheet items:		
- Guarantee and performance bonds	**375,763**	108,117
- Commitments to lend	**892,690**	900,856
Total exposure	**135,264,510**	113,242,558

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 statement of financial position.

As shown above, 88.87% of the total maximum exposure is derived from loans and advances to customers and 5.55% represents investments in debt securities.

All loans and advances to customers other than to salaried individuals, 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 minimal 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;
- 90% of the loans and advances portfolio are neither past due nor impaired; and
- 9% of the loans and advances portfolio is past due but not impaired.

(iv) Loans and advances

	2016 Shs 000	2015 Shs 000
Neither past due nor impaired	**96,615,098**	93,460,445
Past due but not impaired	**9,203,970**	6,397,192
Impaired	**2,410,382**	1,030,871
Gross	**108,229,450**	100,888,508
Less: allowance for impairment (Note 16)	**(2,038,491)**	(1,482,933)
Net amount	**106,190,959**	99,405,575

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 000	2015 Shs 000
Standard	**96,615,098**	93,460,445

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. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2016 Shs 000	2015 Shs 000
Past due up to 30 days	**5,285,449**	2,433,140
Past due 31 – 60 days	**920,883**	1,019,740
Past due 61 – 90 days	**376,977**	454,695
Past due over 90 days	**2,620,661**	2,489,617
Total	**9,203,970**	6,397,192

Individually impaired:

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

	2016 Shs 000	2015 Shs 000
Individually assessed impaired loans		
- Corporate	-	-
- SME	**2,410,382**	1,030,871
- Consumer	-	-
	2,410,382	1,030,871
Fair value of collateral held	1,672,036	813,230

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.

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. Repossessed property not sold by year end is classified in the balance sheet within "other assets".

(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 ratio. 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.

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.

The table below presents the undiscounted 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 000	1-3 months Shs 000	3-12 months Shs 000	1-5 years Shs 000	Over 5 years Shs 000	Total Shs 000
Liabilities and Equity						
Customer deposits	4,666,706	5,444,491	21,000,179	63,890,190	-	**95,001,566**
Deposits and balances due to banking institutions	483,697	414,936	7,312,646	33,920	-	**8,245,199**
Borrowed funds	1,168,911	75,067	2,254,152	16,347,785	-	**19,845,915**
Finance leases	6,496	417	12,526	90,844	-	**110,283**
Current tax payable	17,395	14,614	54,592	-	-	**86,601**
Other liabilities	7,654,224	-	-	-	-	**7,654,224**
Equity	-	-	-	-	35,354,475	**35,354,475**
Total liabilities	**13,997,429**	**5,949,525**	**30,634,095**	**80,362,739**	**35,354,475**	**166,298,263**
Assets						
Cash and balances with Bank of Uganda	18,516,850	-	-	-	-	**18,516,850**
Placements & Deposits with other banks	2,607,838	2,190,931	8,184,661	-	-	**12,983,430**
Government securities	1,497,416	1,258,029	4,699,620	-	-	**7,455,065**
Loans and advances to customers	5,475,129	5,104,432	38,181,114	57,430,284	-	**106,190,959**
Other assets	6,298,827	-	-	-	-	**6,298,827**
Current income tax recoverable	340,600	-	-	-	-	**340,600**
Property and equipment	-	-	-	9,364,489	-	**9,364,489**
Operating lease prepayments	1,178,449	-	-	-	-	**1,178,449**
Intangible assets	-	-	-	3,795,606	-	**3,795,606**
Deferred income tax asset	-	-	173,988	-	-	**173,988**
Total assets	**35,915,109**	**8,553,392**	**51,239,383**	**70,590,379**	**-**	**166,298,263**
Off Balance Sheet Items						
Guarantee and performance bonds	(375,763)	-	-	-	-	
Commitments to lend	(892,690)	-	-	-	-	
Net liquidity gap	**20,649,227**	**2,603,867**	**20,605,288**	**(9,772,360)**	**(35,354,475)**	
At 31 December 2015						
Net liquidity gap	**6,044,658**	**5,130,456**	**(3,013,039)**	**7,490,069**	**(16,661,119)**	

(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.

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.

At 31 December 2016	USD Shs 000	Total Shs 000
Assets		
Cash and balances with Central Bank	686,008	686,008
Deposits and balances due from other banking institutions	168,419	168,419
Loans and advances	-	-
Other financial assets	-	-
Total assets	**854,427**	**854,427**
Liabilities	-	-
Customer deposits	-	-
Deposits and balances due to banking institutions	-	-
Other financial liabilities	-	-
Total liabilities		
Net on-balance sheet position	**854,427**	**854,427**
Net off-balance sheet position	-	-
Overall open position	854,427	854,427
At 31 December 2015	**145,683**	**145,683**

At 31 December 2016, if the functional currency had strengthened/weakened by 10% against the foreign currencies with all other variables held constant, the pre-tax profit for the year would have been Shs 85.44 million (2015: Shs 14.57 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.

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 90.65 million (2015: Shs 210.62 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	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Bank of Uganda	-	-	-	-	18,516,850	**18,516,850**
Placements & Deposits with other banks	1,432,137	1,203,185	4,494,740	-	5,853,368	**12,983,430**
Government securities	1,497,417	1,258,029	4,699,620	-	-	**7,455,066**
Loans and advances to customers	5,475,129	5,104,432	38,181,114	57,430,284	-	**106,190,959**
Other assets	-	-	-	-	6,298,827	**6,298,827**
Current income tax recoverable	-	-	-	-	340,600	**340,600**
Property and equipment	-	-	-	-	9,364,489	**9,364,489**
Operating lease prepayments	-	-	-	-	1,178,448	**1,178,448**
Intangible assets	-	-	-	-	3,795,606	**3,795,606**
Deferred income tax asset	-	-	-	-	173,988	**173,988**
Total assets	**8,404,683**	**7,565,646**	**47,375,474**	**57,430,284**	**45,522,176**	**166,298,263**
Liabilities						
Customer deposits	4,112,579	4,798,009	18,506,605	56,303,830	11,280,543	**95,001,566**
Deposits and balances due to other banking institutions	483,697	414,936	7,312,646	33,920	-	**8,245,199**
Borrowings	1,168,911	75,067	2,254,152	16,347,785	-	**19,845,915**
Finance Leases	6,496	417	12,526	90,844	-	**110,283**
Current Tax Payable	-	-	-	-	86,601	**86,601**
Other Liabilities	-	-	-	-	7,654,224	**7,654,224**
Equity	-	-	-	35,354,475	-	**35,354,475**
Total Equity and Liabilities	**5,771,683**	**5,288,429**	**28,085,929**	**108,130,854**	**19,021,368**	**166,298,263**
Interest re-pricing gap	**2,633,000**	**2,277,217**	**19,289,545**	**(50,700,570)**		
At 31 December 2015						
Interest sensitivity gap	**2,438,999**	**2,315,225**	**(13,909,983)**	**(27,227,961)**		

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.

As at 31 December 2016, the Bank did not have financial liabilities measured at fair value.

(e) Financial instruments by category

31 December 2016	Loans and Receivables Shs 000	Available-for-sale Shs 000	Total Shs 000
Assets as per balance sheet			
Cash and Balances with Bank of Uganda	18,516,850	-	18,516,850
Balances & Placements with other banks	12,983,430	-	12,983,430
Loans and advances to customers	106,190,959	-	106,190,959
Investment securities:			
– Held to Maturity	-	1,605,843	1,605,843
– Available for Sale	-	5,849,222	5,849,222
Total	**137,691,239**	**7,455,065**	**145,146,304**

31 December 2015	Loans and receivables Ushs 000	Available-for-sale Ushs 000	Total Shs 000
Assets as per balance sheet			
Cash and balances with Central Bank	17,612,687	-	17,612,687
Balances & Placements with other banks	14,354,461	-	14,354,461
Loans and advances to customers	99,405,575	-	99,405,575
Investment securities:			
– Held to Maturity	944,738	-	944,738
Total	**132,317,461**	-	**132,317,461**

	2016 Shs 000	2015 Shs 000
Liabilities as per balance sheet – at amortised cost		
Customer deposits	95,001,566	78,419,204
Deposits from other banks	8,245,199	10,025,004
Other liabilities	7,740,209	6,151,708
Borrowings	19,845,915	21,484,818
Finance Leases	110,283	252,255
Dividends payable	256	-
Total	**130,943,428**	**116,332,989**

(f) Capital management

The Bank monitors the adequacy of its capital using ratios established by the FIA 2004. 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.

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 regulatory capital of Shs 25 billion;

b) maintain a ratio of core capital to risk-weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 8%; and

c) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's total regulatory capital is comprised of Tier 1 capital (core capital): share capital, share premium, plus retained earnings.

Tier 2 capital (Supplementary capital) is comprised of revaluation reserves, general provisions for loans and advances, subordinated debt and hybrid debt.

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December 2016 determined in accordance with Bank of Uganda regulatory returns form BS 100A:

	2016 Shs 000	2015 Shs 000
Core capital (Tier 1)		
Shareholder's equity	**27,785,402**	27,785,402
Retained earnings	**6,328,138**	5,256,842
Intangible assets	**(3,795,606)**	(2,576,877)
Deferred income tax asset	**(173,988)**	(438,104)
Unrealized foreign exchange gains	-	(251,683)
Total core capital	**30,143,946**	**29,775,580**
Supplementary capital (Tier 2)		
General provisions (FIA)	**1,056,743**	**968,136**
Tier 2 capital	**1,056,743**	**968,136**
Total capital (Tier 1 and Tier 2)	**31,200,689**	**30,743,716**

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 amount		Risk weight %	Risk weighted amount	
	2016 Shs '000	2015 Shs '000		2016 Shs '000	2015 Shs '000
Balance sheet assets (net of provisions)					
Central Bank Balance	6,020,345	6,847,597	0%	-	-
Cash at Hand	12,496,505	10,765,090	0%	-	-
Balances with Banks in Uganda	5,853,368	7,014,479	20%	1,170,674	1,402,895
Placement with DTB	1,098,413	1,839,572	20%	219,682	367,914
Placement with DFCU	-	3,000,000	20%	-	600,000
Placement with Crane Bank	-	500,000	20%	-	100,000
Placement with KCB	-	2,000,410	20%	-	400,082
Placement with Pride Micro Finance	6,031,649	-	20%	1,206,330	-
Government securities	7,455,065	944,738	0%	-	-
Loans and advances to customers	105,674,283	99,216,508	100%	105,674,283	99,216,508
Other assets	6,298,827	4,063,414	100%	6,298,827	4,063,414
Current income tax recoverable	340,600	238,543	100%	340,600	238,543
Property and equipment	9,364,489	10,522,887	100%	9,364,489	10,522,888
Operating lease prepayments	1,178,449	893,731	100%	1,178,448	893,731
Intangible assets (offset against core capital)	3,795,606	2,576,877	0%	-	-
Deferred income tax asset (offset against core capital)	173,988	438,104	0%	-	-
On balance sheet assets	**165,781,587**	**150,861,950**		**125,453,333**	**117,805,975**

Off-balance sheet positions					
Guarantees	375,763	108,117	100%	375,763	108,117
Commitments to lend	892,690	900,856	50%	446,345	450,428
Off balance sheet items	**1,268,453**	**1,008,973**		**822,108**	**558,545**
Total risk-weighted assets	**167,050,040**	**151,870,923**		**126,275,441**	**118,364,520**

	2016 Shs '000	2015 Shs '000
Loans and advances to customers		
Gross Loans & Over Drafts	108,638,103	101,530,676
Less Specific Provisions (BOU)	(2,210,700)	(1,788,156)
Less Interest in Suspense	(753,120)	(526,014)
Net Loans and advances	**105,674,283**	**99,216,506**

Capital ratios per Financial Institutions Act (FIA)

Core capital	**30,143,946**	**29,775,580**
Total capital	**31,200,689**	**30,743,716**
FIA minimum ratio capital requirement		
Core capital (8%)	**23.9%**	25.2%
Total capital (12%)	**24.7%**	26.0%

5 Interest income

	2016 Shs 000	2015 Shs 000
Loans and advances	31,064,446	27,358,701
Government securities	609,415	110,392
Short term placements	1,455,090	469,410
	33,128,951	**27,938,503**

6 Interest expense

	2016 Shs 000	2015 Shs 000
Customer deposits	5,748,519	5,056,613
Borrowed funds	3,404,716	1,819,534
	9,153,235	**6,876,147**

7 Fee and commission income

	2016 Shs 000	2015 Shs 000
Transactional fees and commission income	4,609,011	4,422,475
Credit related fees and commission income	12,329,853	11,852,319
	16,938,864	**16,274,794**

8 Foreign exchange income

	2016 Shs 000	2015 Shs 000
Realized foreign exchange (losses)/ gains	143,427	-
Unrealized foreign exchange gains	-	251,683
	143,427	**251,683**

9 Other income

	2016 Shs 000	2015 Shs 000
Recovery of written off loans	619,357	393,636
Grant income	319,974	170,105
Other income	429,323	371,493
	1,368,654	**935,234**

10 Operating expenses

	2016 Shs 000	2015 Shs 000
Depreciation of property and equipment (Note 18)	2,554,618	1,893,416
Amortization of intangible assets (Note 20)	668,351	515,584
Employee benefits expense (Note 11)	20,696,179	19,058,917
Auditor's remuneration	197,393	144,555
Legal fees	249,733	266,697
Other professional fees	274,833	351,179
Rent and rates	2,409,157	2,227,607
Advertising and promotion	1,262,710	914,926
Communication and technology	2,083,164	1,816,197
Administration costs	7,486,416	6,417,410
Other	361,438	425,607
	38,243,992	**34,032,095**

11 Employee benefits expense

	2016 Shs 000	2015 Shs 000
Salaries and wages	15,878,636	14,312,921
NSSF contributions	1,700,796	1,539,748
Defined contribution scheme contributions	535,690	450,687
Other staff costs	2,581,057	2,755,561
	20,696,179	**19,058,917**

12 Income tax expense

	2016 Shs 000	2015 Shs 000
Current income tax charge	121,884	13,133
Deferred income tax Charge-Current Year (Note 25)	264,115	722,321
	385,999	735,454
Profit before income tax	**1,412,888**	**2,747,582**
Tax calculated at the statutory income tax rate of 30% (2015: 30%)	**423,866**	**824,275**
Tax effect of:		
- Income not subject to tax	**(191,825)**	(50,555)
- Tax effect of non-deductible items	**20,423**	34,657
- Final tax on government securities	**121,884**	16,021
- Adjustment on prior year current tax provision	-	(2,888)
- Prior year deferred income tax under provision	**147,956**	(38,672)
- Deferred tax expense - Deferred tax - movement on balances	**(136,305)**	(47,384)
Income tax (credit)/Charge	**385,999**	735,454
Current income tax recoverable was as follows:		
At start of year	**238,543**	212,379
Adjustments for prior period items	-	2,888
Current income tax charge	-	-
Income tax paid	**102,057**	23,276
At end of year	**340,600**	238,543

13 Cash and balances with Bank of Uganda

	2016 Shs 000	2015 Shs 000
Cash on hand	**12,496,505**	10,765,090
Balances with BoU	**6,020,345**	6,847,597
	18,516,850	17,612,687

14 Placements and deposits with other banks

	2016 Shs 000	2015 Shs 000
Balances with Banks in Uganda	**5,853,368**	7,014,479
Placements with other banking institutions - inside Uganda	**7,130,062**	7,339,982
	12,983,430	14,354,461

The weighted average effective interest rate on deposits and balances with other banking institutions was 10.9% (2015: 18.9%)

15 Government securities

	2016 Shs 000	2015 Shs 000
Cost	**5,538,771**	-
Accrued interest	**298,469**	-
Fair value gain (Note 33)	**11,982**	-
	5,849,222	-

Analysis of the government securities available for sale is as follows:

	2016 Shs 000	2015 Shs 000
Held to maturity-Maturing within 90 days from date of reporting	**960,857**	-
Held to maturity-Maturing after 90 days from date of reporting	**644,986**	944,738
Available for sale	**5,849,222**	-
	7,455,065	944,738

The weighted average effective interest rate on government securities was 14.9% (2015: 21.2%)

16 Loans and advances to customers

a) Analysis of loan advances to customers by category:

	2016 Shs 000	2015 Shs 000
Term loans	**106,230,106**	98,919,712
Overdrafts	**1,999,344**	1,968,796
Total Gross Loans	**108,229,450**	100,888,508
Less: Provision for impairment of loans and advances		
- Individually assessed	**(1,046,120)**	(349,811)
- Collectively assessed	**(992,371)**	(1,133,122)
	106,190,959	99,405,575

The weighted average effective interest rate on loans and advances to customers was 25.5% (2015: 25.3%).

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

	Individually assessed Shs 000	Collectively assessed Shs 000	Total Shs 000
Year ended 31 December 2015			
At 1 January	**723,602**	**924,429**	**1,648,031**
Provision for loan impairment	6,626	1,737,764	1,744,390
Amounts recovered during the year	-	-	-
Transfers	-	-	-
Loans written off during the year as uncollectible	(380,417)	(1,529,071)	(1,909,488)
At 31 December 2015	**349,811**	**1,133,122**	**1,482,933**
Year ended 31 December 2016			
At 1 January	349,811	1,133,122	1,482,933
Provision for loan impairment	1,186,305	1,583,476	2,769,781
Loans written off during the year as uncollectible	(489,996)	(1,724,227)	(2,214,223)
At 31 December 2016	**1,046,120**	**992,371**	**2,038,491**

(b) Impairment losses charged to profit or loss

	2016 Shs 000	2015 Shs 000
Provision for loan impairment (note 16 (a))	**2,769,781**	1,744,390
Amounts recovered during the year (note 16 (a))	-	-
	2,769,781	1,744,390

(c) Regulatory reserve

Analysis as per Bank of Uganda guidelines

	2016 Shs 000	2015 Shs 000
Total provision as per IFRS		
Specific provision (Note 16(a))	**1,046,120**	349,811
General provision	**992,371**	1,133,122
	2,038,491	1,482,933
Total provisions as per BOU guidelines		
Specific provisions	**2,210,700**	1,788,156
General provisions	**1,056,743**	968,137
	3,267,443	2,756,293
Regulatory reserve		
At 1 January	**1,273,360**	1,067,937
Transfer (from/) to the regulatory reserve	**(44,407)**	205,423
At 31 December	**1,228,953**	1,273,360

17 Other assets

Accounts receivable and prepayments	**4,410,767**	3,423,825
Items in transit	**1,537,005**	303,754
Stationery stocks	**351,055**	335,835
Total	**6,298,827**	4,063,414

18 Property and equipment

	Buildings Shs 000	Motor vehicles/ Cycles Shs 000	Computer Hardware Shs 000	Fixtures, fittings and equipment Shs 000	Work in progress Shs 000	Total Shs 000
Year Ended 31 December 2015						
Opening net book amount	158,381	888,372	754,240	5,542,015	-	7,343,008
Additions	-	396,257	2,034,886	1,909,242	772,552	5,112,937
Disposals	-	(23,400)	(182,020)	(91,054)	-	(296,474)
Depreciation charge	(2,532)	(360,724)	(389,292)	(1,140,868)	-	(1,893,416)
Depreciation on disposals	-	19,659	169,364	67,809	-	256,832
Closing net book amount	**155,849**	**920,164**	**2,387,178**	**6,287,144**	**772,552**	**10,522,887**
Cost	188,240	1,988,853	4,697,866	12,265,883	772,552	19,913,394
Accumulated depreciation	(32,391)	(1,068,689)	(2,310,688)	(5,978,739)	-	(9,390,507)
Net book amount	**155,849**	**920,164**	**2,387,178**	**6,287,144**	**772,552**	**10,522,887**
Year Ended 31 December 2016						
Opening net book amount	155,849	920,164	2,387,178	6,287,144	772,552	10,522,887
Additions	9,499	142,350	567,372	1,434,575	-	2,153,796
Disposals	-	(52,930)	(2,995)	(81,539)	-	(137,464)
Transfers from WIP	-	-	-	-	(728,605)	(728,605)
Depreciation charge	(2,546)	(438,395)	(885,852)	(1,227,825)	-	(2,554,618)
Depreciation on disposals	-	39,750	2,729	66,014	-	108,493
Closing net book amount	**162,802**	**610,939**	**2,068,432**	**6,478,369**	**43,947**	**9,364,489**
Cost	197,739	2,078,273	5,262,243	13,618,919	43,947	21,201,121
Accumulated depreciation	(34,937)	(1,467,334)	(3,193,811)	(7,140,550)	-	(11,836,632)
Net book amount	**162,802**	**610,939**	**2,068,432**	**6,478,379**	**43,947**	**9,364,489**

19 Operating lease prepayments

	2016 Shs 000	2015 Shs 000
Cost		
At 1 January	**6,892,975**	4,705,667
Additions	**2,693,874**	2,187,308
At 31 December	**9,586,849**	6,892,975
Amortization		
At 1 January	**5,999,243**	3,771,637
Charge for the year	**2,409,157**	2,227,607
At 31 December	**8,408,400**	5,999,244
Net book value		
At 31 December	**1,178,449**	893,731

20 Intangible assets

	2016 Shs 000	2015 Shs 000
Net book amount at 1 January	**2,576,877**	1,969,402
Additions: Computer Software	**1,549,850**	1,123,059
Transfer from WIP	**337,230**	-
Amortization	**(668,351)**	(515,584)
Net book amount at 31 December	**3,795,606**	2,576,877
Cost	**7,375,696**	5,488,617
Accumulated depreciation	**(3,580,090)**	(2,911,740)
Net book amount	**3,795,606**	2,576,877

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

21 Customer deposits

	2016 Shs 000	2015 Shs 000
Current and demand deposits	**11,280,543**	7,976,642
Savings accounts	**54,873,233**	45,573,666
Fixed deposit accounts	**28,847,790**	24,868,896
	95,001,566	78,419,204

The weighted average effective interest rate on customer deposits was 2% (2015: 3.11%).

22 Deposits and balances due to other banking Institutions

	2016 Shs 000	2015 Shs 000
Term deposits	**8,245,199**	10,025,004
	8,245,199	10,025,004

The deposits with other banking institutions are interest bearing. The weighted average effective interest rate on deposits and balances due to other banking institutions was 15.4%.

23 Borrowings

	2016 Shs 000	2015 Shs 000
ABI	**3,979,506**	5,116,507
Stromme Finance	**1,689,577**	4,499,746
Uganda Energy Credit Capitalisation Company	**1,441,408**	661,709
The Micro Finance Support Centre Limited	**536,578**	1,295,740
East Africa Development Bank	**5,915,402**	5,911,116
Oikocredit Ecumenical Development Cooperative Society	**6,283,444**	4,000,000
	19,845,915	21,484,818

The terms and conditions relating to borrowings are tabulated below:

	Tenure (years)	Interest rate	Fixed/ variable	Currency
ABI	5	13.5%	Fixed	Shs
Stromme Finance 1	3	14.0%	Fixed	Shs
Stromme Finance 2	3	14.5%	Fixed	Shs
Stromme Finance 3	3	17%	Fixed	Shs
Uganda Energy Credit Capitalisation Company	10	8.15%	Fixed	Shs
The Micro Finance Support Centre Limited	3	13%	Fixed	Shs
East Africa Development Bank	8	14%	Fixed	Shs
Oikocredit Ecumenical Development Cooperative Society	6	12%	Variable	Shs

24 Other liabilities

	2016 Shs 000	2015 Shs 000
Accounts payable	1,543,157	1,114,631
Accruals and provisions	693,828	162,391
Other taxes payable	576,324	614,653
Gratuity & pensions	363,995	428,593
Deferred income	1,294,971	1,385,553

Designated funds	401,042	979,817
Capital grants	1,222,951	943,926
Others	1,557,700	522,144
	7,653,968	6,151,708

25 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:

Year ended 31 December 2016	1 January 2016 Shs 000	Charged (credited) to P/L Shs 000	31 December 2016 Shs 000
Deferred income tax liabilities			
Accelerated tax depreciation	**(1,651,566)**	**(42,780)**	**(1,694,346)**
Deferred income tax assets			
Tax losses carried forward	1,289,260	(402,870)	886,390
Capital grants	283,178	83,708	366,886
Provisions for loan impairment	339,937	(42,226)	297,711
Other provisions	177,295	140,052	317,347
	2,089,670	(221,336)	1,868,334
Net deferred income tax asset	**438,104**	**(264,116)**	**173,988**

Year ended 31 December 2015	1 January 2015 Shs 000	Charged (credited) to P/L Shs 000	31 December 2015 Shs 000
Accelerated tax depreciation	**(1,481,379)**	**(170,187)**	**(1,651,566)**
Deferred income tax assets			
Tax losses carried forward	2,058,098	(768,838)	1,289,260
Capital grants	140,822	142,356	283,178
Provisions for loan impairment	277,329	62,608	339,937
Other provisions	165,555	11,740	177,295
	2,641,804	(552,134)	2,089,670
Net deferred income tax asset	**1,160,425**	**(722,321)**	**438,104**

The movement on the deferred tax asset account is as follows:	2016 Shs 000	2015 Shs 000
At 1 January 2016	**438,104**	1,160,425
Income statement charge – current year (note 12)	**(264,116)**	(722,321)
At 31 December 2016	**173,988**	438,104

26 Finance Lease Arrangements

During the year, the Bank entered into a finance leasing arrangement with Computer Point, one of its major suppliers for six note counters over a period of 3 years from 13 May 2016. Annual lease rentals were agreed at Shs 54,516,000 but payable semi-annually.

The Bank also has existing finance lease arrangements with DFCU Bank and Centenary Bank as per the details below:

The facility with Centenary Bank relates to leasing arrangements which the Bank entered for a tenor of 36 months, at a fixed rate of 20% p.a for purposes of acquiring motor vehicles. They are secured by a charge on outstanding loan portfolio equivalent to 120% of the outstanding amount and are repayable on a monthly basis.

The DFCU facility is also a motor vehicle leasing arrangement that was entered for a 36 months period at a fixed rate of 22% p.a. It is secured by car log books and repayable on a monthly basis.

The balance from the above facilities as at year end of future minimum lease payments under non-cancellable finance leases are as follows:

	2016 Shs 000	2015 Shs 000
As a 1 January 2015	**252,255**	474,048
New contracts	**137,541**	-
Payments made during the year	**(279,513**	(221,793)
Total	**110,283**	252,255
Not later than 1 year	**70,885**	79,724
Later than 1 year but less than 5 years	**39,398**	172,531
Later than 5 years	-	-
Total	**110,283**	252,255

27 Share capital

	Number of shares issued & fully paid (thousands)	Ordinary shares Shs 000	Share premium Shs 000
Year ended 31 December 2015			
At start of year	26,982,973	26,982,973	802,429
Rights issue of shares	802,429	802,429	(802,429)
At year end	**27,785,402**	**27,785,402**	-
Year ended 31 December 2016			
At start of year	27,785,402	27,785,402	-
Bonus issue of shares	-	-	-
At end of year	**27,785,402**	**27,785,402**	-

The total authorised number of ordinary shares is Shs 30 million (2015: 30 million) with a par value of Shs 1,000 per share. No share issues were done during the year 2016.

28 Bank shareholding

The Bank shareholders are as follows:

Shareholder:	Country of incorporation	Holding
Uganda Women Trust	Uganda	20.1%
Oiko Credit Ecumenical Development Cooperative Society U,A	Netherlands	19.6%
Progression Eastern African Micro Finance Equity Fund	Mauritius	18.3%
RIF North 1 Investment	Mauritius	18.3%
I&P Afrique Enterpreneurs	Mauritius	14.2%
Founder Members	Uganda	9.5%
		100.00%

29 Analysis of cash and cash equivalents

	2016 Shs 000	2015 Shs 000
Cash and Balances with Banks of Uganda (note 13)	18,516,850	17,612,687
Less: cash reserve requirement	(7,930,000)	(6,600,000)
Government securities - maturing within 90 days (note 15)	960,857	-
Balances and Placements with other banks (note 14)	12,983,430	14,354,461
	24,531,137	**25,367,148**

For the purposes of the cash flow statement, cash and cash equivalents include cash balances, balance with the central bank and amounts due from other banks.

Cash and cash equivalents include the cash reserve requirement held with the Bank of Uganda. Banks are required to maintain a prescribed daily average minimum cash balance with the Bank of Uganda from time to time and the amount is determined as 8% of the average outstanding customer deposits over a cash reserve cycle period of two weeks. Whilst it's available for use in the bank's activities and may fall to 50% of the margin on a given day there are sanctions for non-compliance.

30 Earnings per share

	2016	2015
Profit attributable to equity holders of the Bank (Shs 000)	**1,038,871**	2,012,128
Weighted average number of ordinary shares in issue (thousands)	**27,785,402**	27,785,402
Earnings per share (expressed in Shs per share)	**37**	72

31 Related party balances

The immediate and ultimate parent of the Bank is UWT which owns 20.1% of the Bank's shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and advances to related parties and interest on these loans. The details of related-party transactions and outstanding balances at year-end are as follows:

	2016 Shs 000	2015 Shs 000
Borrowings from related parties		
Loans from Oikocredit (shareholder)	6,283,444	4,000,000
Interest expense incurred	221,869	155,734
Loans and advances to directors and key management	1,724,813	1,749,659

Advances to customers include loans to directors and loans to employees as shown above.

Interest income earned on loans and advances to key management and directors is Shs 188 million (2015: Shs 156 million).

Key management compensation		
	2016 Shs 000	**2015 Shs 000**
Salaries and short-term employment benefits	**1,432,227**	1,355,808
Terminal benefits	**535,690**	450,688
Other staff benefits	**112,025**	88,892
	2,079,942	1,895,388
Directors' remuneration		
Directors' fees	**1,482,694**	1,051,618

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

The following are the commitments outstanding at year end	2016 Shs 000	2015 Shs 000
Acceptances and letters of credit	-	-
Commitments to lend	892,690	900,856
Guarantee and performance bonds	375,763	108,117
	1,268,453	1,008,973

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. The Bank may withdraw from its contractual obligations to extend credit by giving reasonable notice to the customers. At 31 December, these included:

	2016 Shs 000	2015 Shs 000
Approved advances not utilized	892,690	900,856

33 Revaluation reserve - available for sale securities

	2016 Shs 000	2015 Shs 000
As at 1 January	-	-
Net gains from changes in fair value	11,982	-
Net movement for the year	11,982	-

The above amount relates to revaluation gains on available for sale government securities.

34 Proposed dividends

No interim dividend was paid during the year (2015: Nil). The directors do not recommend a final dividend for the year (2015: A dividend of Shs 14.67 per share totaling to Shs 402 million was proposed and paid out in 2016).

Notes

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