BANK OF AFRICA

Groupe BMCE BANK

FINANCIAL STATEMENTS AT 31 DECEMBER 2015

UGANDA

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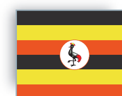
UGANDA



Opening date: July 2004

Created in 1985: SEMBULE INVESTMENT BANK Ltd > ALLIED BANK.
Integrated into BOA network in 2006.

Capital as at 31/12/2015

Uganda Shillings (UGX) 46.775 billion

Board of Directors as at 31/12/2015

John CARRUTHERS, Chairmain
Amine BOUABID
Abdelkabir BENNANI
Vincent de BROUWER
Gertrude K. BYARUHANGA
Bernard J. CHRISTIAANSE
Arthur ISIKO
Mohan Musisi KIWANUKA

Auditor

PRICEWATERHOUSECOOPERS

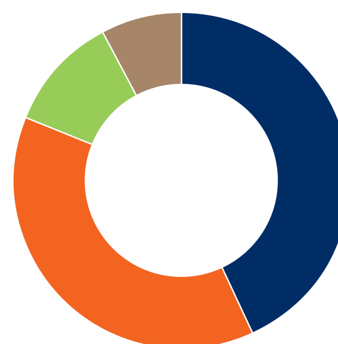
Registered office

BANK OF AFRICA House
Plot 45, Jinja Road
P.O. Box 2750 - Kampala - UGANDA
Tel. : (256) 414 302001
Fax : (256) 414 230 902
SWIFT : AFRIUGKA

E-mail : <boa@boauganda.com>
Site : www.boauganda.com

Principal Shareholders as at 31/12/2015

BANK OF AFRICA IN KENYA	43.24%
AFH-OCÉAN INDIEN	37.96%
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	11.04%
CENTRAL HOLDINGS Ltd.	7.76%



Key features of 2015 (Amount in UShs)

Activity	2015	Yearly* growth %
Deposits	433,368	26.8
Loans	264,666	9.4
Number of branches at the end of the financial year	36	0
Structure		
Total Assets	629,407	26.5
Shareholders' equity	84,387	34.7
Average number of employees	418	14.2

Capital Adequacy Ratio	
TTier 1	64,374
Tier 2	5,405
Risk Weighted Asset (RWA)	431,650
Tier 1 + Tier 2 / RWA (%)	16.2

(*) Yearly growth 2015-2014

Income

Income		
Net operating income	58,127	17.2
Operating expenses	53,654	18.0
Gross operating profit	(1,493)	-572.5
Cost of risk (in value) (**)	5,968	57.6
Net income	519	-57.0
Operating ratio (%)	92.3	0.6
Cost of risk (%)	2.2	0.7
Return on Assets (ROA %)	0.1	-0.2

(**) Including general provision

Financial Analysis

In the face of an uncertain macro environment, our 2015 financial results show both the progress we have made and some challenges that remain. We reported an interesting growth in net operating income which was supported by strong growth in net interest income but was hit by underperformance in non-interest income largely on account of lacklustre treasury outturns. The weakness in treasury operations was however somewhat offset by strong growth in fees and commissions following our award winning implementation of straight-through processing.

Our higher cost of risk was precipitated by a pragmatic approach to asset impairment in spite of the improving quality of our credit portfolio, thus creating superior credit provision buffers. Investment in personnel and technology created pressures on operating costs but also resulted in a build-up of competencies especially in the customer service and mobile banking areas that will be useful for the future. The bank is therefore in a better financial and human resource position and carries reduced risk.

During 2016, our core strategy will be to ensure better and cost effective engagement with customers through revolutionary distribution channels that redefine customer experiences. This together with our commitment to a risk focused culture will help us better protect and deliver value not only to our customers but also to our shareholders, employees, regulators and the communities in which we operate.

Corporate information

Registered office

The address of the registered office is:

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

Company Secretary

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

Auditor

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

Directors' Report

For the year ended 31 December 2015

The directors submit their report together with the audited financial statements for the year ended 31 December 2015, which disclose the state of affairs of BANK OF AFRICA - UGANDA Ltd. ("the Bank").

Principal Activities

The Bank is engaged in the business of banking and the provision of related services and is licensed under the Financial Institutions Act 2004.

Results and Dividend

The net profit for the year of Ushs 519 million (2014: profit of Ushs 1,206 million) has been taken to retained earnings. The directors do not recommend the payment of a dividend for the year ended 31 December 2015 (2014: Nil).

Directors

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

Directors	Position	Remarks
Mr. John CARRUTHERS	**Chairman**	
Mr. Ronald MARAMBII	Managing Director	(Resigned on 1 October 2015)
Mr. Arthur ISIKO	Managing Director	(Appointed on 1 October 2015)
Mr. Amine BOUABID	Non-executive Director	
Mr. Mohamed BENNANI	Non-executive Director	(Resigned on 1 October 2015)
Mr. Abdelkabir BENNANI	Non-executive Director	
Mr. Mohan M. KIWANUKA	Non-executive Director	
Mr. Vincent de BROUWER	Non-executive Director	
Mr. Bernard J. CHRISTIAANSE	Non-executive Director	(Resigned on 9 December 2015)
Ms. Gertrude K. BYARUHANGA	Non executive Director	
Abdelkabir Bennani	Member	

Corporate Governance

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

Board of Directors

The Bank has a broad-based board of directors. The board functions as a full board and through various committees constituted to oversee specific operational areas. The board has constituted four committees. These are the Risk Management Committee, Asset and Liability Management Committee, Staff and Compensation Committee, and the Audit Committee. All board committees are constituted and chaired by non-executive directors. As at 31 December 2015, the Board of Directors consisted of 7 members.

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

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

Auditors

The Bank's auditor, PricewaterhouseCoopers was appointed during the year ended 31 December 2015 and continues in office in accordance with the provisions of Section 167(2) of the Companies Act and Section 62 (3) of the Financial Institutions Act 2004.

By order of the Board

Rehmah Nabunya
Secretary
17 February 2016

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Ugandan Companies Act and the Financial Institutions Act 2004. 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 loss in accordance with International Financial Reporting Standards and with the requirements of the Ugandan Companies Act and the Financial Institutions Act 2004. 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.

John CARRUTHERS
Chairman

Mohan M. KIWANUKA
Director

Arthur ISIKO
Director

17 February 2016

Independent auditor's report

To the members of BANK OF AFRICA - UGANDA limited

Report on the financial statements

We have audited the accompanying financial statements of BANK OF AFRICA – UGANDA Ltd. ("the Bank"), set out on pages 8 to 49. These financial statements comprise the statement of financial position at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Ugandan Companies Act and the Financial Institutions Act 2004, 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Bank's financial affairs at 31 December 2015 and its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Ugandan Companies Act and the Financial Institutions Act 2004.

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;

iii) the Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Certified Public Accountants
Kampala

28 April 2016

Financial Statements

For the year ended 31 december 2015

Statement of Comprehensive Income as at 31 December 2015

	NOTES	2015 USHS M	2014 USHS M
INTEREST INCOME	5	52,552	44,176
INTEREST EXPENSE	6	(14,244)	(14,913)
NET INTEREST INCOME		38,308	29,263
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	16 (B)	(5,968)	(3,788)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		32,340	25,475
FEE AND COMMISSION INCOME	7	37,459	17,674
FEE AND COMMISSION EXPENSE	8	(13,881)	(3,334)
NET FOREIGN EXCHANGE (LOSSES)/GAINS	9	(6,165	3,338
OTHER OPERATING INCOME		2,408	2,640
OPERATING EXPENSES	10	(53,654)	(45,477)
(LOSS)/PROFIT BEFORE INCOME TAX		(1,493)	316
INCOME TAX CREDIT	12	2,012	890
PROFIT FOR THE YEAR		519	1,206
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		519	1,206
EARNINGS PER SHARE - BASIC AND DILUTED (USHS PER SHARE)	30	13	38

Statement of Financial Position as at 31 December 2015

	NOTES	2015 USHS M	2014 USHS M
ASSETS			
CASH AND BALANCES WITH BANK OF UGANDA	13	67,376	66,337
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS	14	115,690	29,857
DEPOSITS DUE FROM GROUP COMPANIES	31 (A)	52,155	19,241
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	15 (B)	2,203	34
GOVERNMENT SECURITIES	15 (A)	81,830	101,761
LOANS AND ADVANCES TO CUSTOMERS	16 (A)	264,666	241,959
OTHER ASSETS	17	8,587	7,173
CURRENT INCOME TAX RECOVERABLE	12	-	443
PROPERTY AND EQUIPMENT	18	13,789	13,987
OPERATING LEASE PREPAYMENTS	19	3,098	3,145
INTANGIBLE ASSETS	20	4,022	3,378
DEFERRED INCOME TAX ASSET	25	15,991	10,305
TOTAL ASSETS		629,407	497,620
LIABILITIES			
CUSTOMER DEPOSITS	21	433,368	341,748
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	22	37,857	11,077
AMOUNTS DUE TO GROUP COMPANIES	31 (B)	38,128	32,620
OTHER BORROWINGS	23	23,392	39,086
CURRENT INCOME TAX LIABILITIES	12	482	-
OTHER LIABILITIES	24	11,793	10,432
TOTAL LIABILITIES		545,020	434,963
EQUITY			
SHARE CAPITAL	26	46,775	34,421
SHARE PREMIUM	26	23,614	14,757
REGULATORY CREDIT RISK RESERVE	16 (C)	-	1,628
RETAINED EARNINGS		13,998	11,851
TOTAL EQUITY		84,387	62,657
TOTAL EQUITY AND LIABILITIES		629,407	497,620

The financial statements on pages 8 to 49 were approved for issue by the Board of Directors on 17 February 2016 and signed on its behalf by:

John CARRUTHERS
Chairman

Mohan M. KIWANUKA
Director

Arthur ISIKO
Director

Rehman NABUNYA
Secretary

Statement of Changes in Equity for the year ended 31 December 2015

	NOTES	SHARED CAPITAL USHS M	SHARED PREMIUM USHS M	REGULATORY RESERVE USHS M	RETAINED EARNING USHS M	TOTAL USHS M
YEAR ENDED 31 DECEMBER 2014						
AT 1 JANUARY 2014	26	29,499	10,891	1,927	10,346	52,663
COMPREHENSIVE INCOME:						
PROFIT FOR THE YEAR		-	-	-	1,206	1,206
TOTAL COMPREHENSIVE INCOME		-	-	-	1,206	1,206
TRANSFER TO REGULATORY RESERVE		-	-	(299)	299	-
TRANSACTIONS WITH OWNERS:						
RIGHTS ISSUE		4,922	3,866	-	-	8,788
AT END OF YEAR	26	34,421	14,757	1,628	11,851	62,657
YEAR ENDED 31 DECEMBER 2015						
AT 1 JANUARY 2015	26	34,421	14,757	1,628	11,851	62,657
COMPREHENSIVE INCOME:						
LOSS FOR THE YEAR		-	-	-	519	519
TOTAL COMPREHENSIVE INCOME		-	-	-	519	519
TRANSFER FROM REGULATORY RESERVE		-	-	(1,628)	1,628	-
TRANSACTIONS WITH OWNERS:						
RIGHTS ISSUE		12,354	8,857	-	-	21,211
AT END OF YEAR	26	46,775	23,614	-	13,998	84,387

Statement of cash flows for the year ended 31 december 2015

	NOTES	2015 USHS M	2014 USHS M
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		52,196	43,683
INTEREST PAYMENTS		(14,460)	(16,866)
NET FEE AND COMMISSION RECEIPTS		23,578	14,340
OTHER INCOME RECEIVED		(4,214)	10,649
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF	16 (B)	1,868	1,283
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(48,279)	(41,630)
INCOME TAX PAID	12	(2,750)	(2,590)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		7,939	8,869
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
LOANS AND ADVANCES		(31,578)	(52,566)
CASH RESERVE REQUIREMENT		(7,329)	(3,727)
OTHER ASSETS		(3,583)	(304)
CUSTOMER DEPOSITS		91,634	48,421
DEPOSITS DUE TO OTHER BANKS		26,810	(1,337)
AMOUNTS DUE TO GROUP COMPANIES		5,610	24,895
OTHER LIABILITIES		2,461	5,122
GOVERNMENT SECURITIES		18,613	9,859
NET CASH GENERATED FROM OPERATING ACTIVITIES		110,577	30,363
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	18	(3,240)	(2,593)
PURCHASE OF INTANGIBLE ASSETS	20	(1,815)	(960)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		-	24
NET CASH UTILISED IN INVESTING ACTIVITIES		(5,055)	(3,529)
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES	26	21,211	8,788
REPAYMENT OF BORROWED FUNDS		(15,594)	(13,600)
NET CASH GENERATED/ (UTILIZED) FROM FINANCING ACTIVITIES		5,617	(4,812)
NET INCREASE IN CASH AND CASH EQUIVALENTS		111,139	30,891
CASH AND CASH EQUIVALENTS AT START OF YEAR		113,009	82,118
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	224,148	113,009

Notes to the Financial Statements

For the year ended 31 December 2015

1. General Information

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

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

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

2. Summary of significant accounting policies

(a) Basis of preparation

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

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

Changes in accounting policy and disclosures

(i) The following standards/ amendments have been applied by the Bank for the first time for the financial year beginning on 1 January 2015:

Annual improvements to IFRSs 2010-2012 and 2011-2013 cycles. The following amendments are effective July 2014:

- IFRS 2- clarifies the definition of 'vesting condition' and now distinguishes between 'performance condition' and 'service condition'
- IFRS 3- clarifies that an obligation to pay contingent consideration is classifies as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 3- clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement
- IFRS 8- requires disclosure of the judgments made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported.
- IFRS 13- confirms that short term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.

(i) New and amended standards adopted by the Bank

- IFRS 13-clarifies that the portfolio exception in IFRS 13(measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS39 or IFRS 9.
- IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts.
- IAS 24 – where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors.
- IAS 40 – clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owner-occupied property and determining whether the acquisition of an investment property is a business combination.
- Amendments to IAS 19,'Defined Benefit Plans: Employee Contributions'. Effective 1 July 2014. The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version of IAS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods. To provide relief, changes were made to IAS 19. These allow contributions that are linked to service, but that do not vary with the length of employee service (e. g a fixed % of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy.

The adoption of the improvements made in the 2012-2012 cycle has required additional disclosures in the segment note. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(ii) New standards and interpretations early adopted

The company has elected to adopt the following two amendments early

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

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.

OCI 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.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

As these amendments merely clarify the existing requirements, they do not affect the company's accounting policies or any of the disclosures.

(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 2015, 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', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through 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 company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' 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 company is assessing the impact of IFRS 15.

IFRS 11, 'Joint arrangements'. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 16, 'Property, plant and equipment', and IAS 41, 'Agriculture', These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual periods beginning on or after 1 January 2016.

IAS 27, 'Separate financial statements'. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016.

IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016.

IAS 1, 'Presentation of financial statements' These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. Effective for annual periods beginning on or after 1 January 2016.

Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information

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

(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 ("UShs") 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 instruments

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

(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:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- 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
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
- adverse changes in the payment status of borrowers in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 3 months and 6 months.

(j) 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 2004 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 2004 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. Depreciation on other assets is calculated on the straight line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	50 years
Motor vehicles	4 years
Fixtures, fittings and equipment	3-8 years

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

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

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

(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 (three years).

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three 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 or 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 2015, the Bank recognised a deferred tax asset of UShs 15,991 million in respect of accumulated tax losses based on management's projections that sufficient taxable profits will be generated in 2016 against which the deferred tax asset will be utilised. The deferred tax has been maintained in the balance sheet with an assumption that 2016 will be profitable based on the projected decrease in cost of funds and increase in revenue.

(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 2013, an IAS 39 provision was computed for unidentified and identified impairment. For significant facilities which account for 89% of the total 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. A loss ratio of 0.96% was obtained using bank data over a period of 5 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.
- 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.

The term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

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

	2015 USHS M	2014 USHS M
PLACEMENTS WITH OTHER BANKS (NOTE 14)	115,690	29,857
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 31 (A))	52,155	19,241
LOANS AND ADVANCES TO CUSTOMERS (NOTE 16)	264,666	241,959
GOVERNMENT SECURITIES (NOTE 15 (A))	81,830	101,761
OTHER ASSETS (NOTE 17)	8,587	7,173
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	14,652	13,126
- GUARANTEE AND PERFORMANCE BONDS	42,020	54,774
- COMMITMENTS TO LEND	8,339	15,452
TOTAL EXPOSURE	587,939	483,343

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2014, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 65% (2014: 56%) of the total maximum exposure is derived from loans and advances to banks and customers. 14% (2014: 21%) represents investments in debt securities.

Loans and advances to customers, other than to major corporate and to salaried individuals borrowing less than UShs 60 million, are secured by collateral in the form of charges over land and buildings and/or plant and machinery and other assets, corporate and personal guarantees or assignment of contract proceeds.

Management is confident in its ability to continue to control and sustain 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
- 72% of the loans and advances portfolio are neither past due nor impaired
- 98% of the loans and advances portfolio is not impaired; and
- 80% of the loans and advances portfolio are backed by collateral

(iv) Loans and advances

	2015 USHS M	2014 USHS M
NEITHER PAST DUE NOR IMPAIRED	194,714	187,465
PAST DUE BUT NOT IMPAIRED	70,755	56,271
IMPAIRED	5,306	3,290
GROSS	270,775	247,026
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 16 (A))	(6,109)	(5,067)
NET AMOUNT	264,666	241,959

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:

	2015 USHS M	2014 USHS M
STANDARD AND WATCH	194,714	187,465

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:

	2015 USHS M	2014 USHS M
PAST DUE UP TO 30 DAYS	55,383	47,313
PAST DUE 31 – 60 DAYS	14,150	4,363
PAST DUE 61 – 90 DAYS	1,088	801
PAST DUE OVER 90 DAYS	134	3,794
TOTAL	70,755	56,271

Individually impaired:

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

	2015 USHS M	2014 USHS M
INDIVIDUALLY ASSESSED IMPAIRED LOANS		
- CORPORATE	2,306	1,614
- SME	622	35
- CONSUMER	2,378	1,641
TOTAL	5,306	3,290
FAIR VALUE OF COLLATERAL HELD	1,767	822

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled UShs 6,800 million (2014: UShs 7,890 million).

Repossessed collateral

During 2015, 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 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 2015	UP TO 1 MONTH USHS M	1-3 MONTHS USHS M	3-12 MONTHS USHS M	1-5 YEARS USHS M	OVER 5 YEARS USHS M	TOTAL USHS M
LIABILITIES						
CUSTOMER DEPOSITS	380,851	14,752	37,765	-	-	433,368
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	37,857	-	-	-	-	37,857
AMOUNTS DUE TO GROUP COMPANIES	15,253	22,875	-	-	-	38,128
OTHER BORROWED FUNDS	-	-	14,902	8,048	442	23,392
OTHER LIABILITIES	12,275	-	-	-	-	12,275
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	446,236	37,627	52,667	8,048	442	545,020
ASSETS						
CASH AND BANK BALANCES WITH CENTRAL BANK	67,376	-	-	-	-	67,376
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	115,690	-	-	-	-	115,690
AMOUNTS DUE FROM GROUP COMPANIES	10,479	41,676	-	-	-	52,155
LOANS AND ADVANCES TO CUSTOMERS	62,710	27,922	23,848	141,593	8,593	264,666
GOVERNMENT SECURITIES	4,966	23,828	52,376	660		81,830
PROPERTY AND EQUIPMENT	1	10	391	6,664	6,723	13,789
INTANGIBLE ASSETS	1,133	1	105	2,783	-	4,022
OTHER ASSETS	4,087	-	-	-	25,792	29,879
TOTAL ASSETS (EXPECTED MATURITY DATES)	266,442	93,437	76,720	151,700	41,108	629,407
ON-BALANCE SHEET MISMATCH	(179,794)	55,810	24,053	143,652	40,666	84,387
NET OFF-BALANCE SHEET MISMATCH	10,013	11,020	39,450	4,528	-	65,011
NET LIQUIDITY POSITION	(189,807)	44,790	(15,397)	139,124	40,666	19,376
AT 31 DECEMBER 2014						
NET LIQUIDITY GAP	(192,484)	35,538	8,007	105,233	22,299	(21,407)

(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 2015 and 2014. Included in the table are the Bank's financial instruments, categorised by foreign currency.

	USD USHS M	GBP USHS M	EURO USHS M	OTHER USHS M	TOTAL USHS M
AT 31 DECEMBER 2015					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	9,952	910	1,921	21	12,804
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	92,808	9,189	5,020	349	107,366
AMOUNTS DUE FROM GROUP COMPANIES	33,832	16	4,807	74	38,729
LOANS AND ADVANCES	128,371	-	2	4	128,377
OTHER FINANCIAL ASSETS	932	-	14,687	-	15,619
TOTAL ASSETS	265,895	10,115	26,437	448	302,895
LIABILITIES					
CUSTOMER DEPOSITS	150,323	2,293	10,667	84	163,367
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	37,479	-	-	2	37,481
AMOUNTS DUE TO GROUP COMPANIES	32,262	-	-	-	32,262
OTHER BORROWED FUNDS	18,923	-	659	-	19,582
OTHER FINANCIAL LIABILITIES	14,981	7	264	-	15,252
TOTAL LIABILITIES	253,968	2,300	11,590	86	267,944
NET ON-BALANCE SHEET POSITION	11,927	7,815	14,847	362	34,951
NET OFF-BALANCE SHEET POSITION	(38,956)	34,832	(49,711)	(269)	(54,104)
OVERALL OPEN POSITION	(27,029)	42,647	(34,864)	93	(19,153)
AT 31 DECEMBER 2014	(9,106)	8	(2,514)	175	(11,437)

At 31 December 2015, if the functional currency had strengthened/weakened by 1% against the foreign currencies with all other variables held constant, the pre-tax profit for the year would have been UShs 200 million (2014: UShs 110 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 2015, 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 UShs 157 million (2014: UShs 196 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 2015	UP TO 1 MONTH USHS M	1-3 MONTHS USHS M	3-12 MONTHS USHS M	1-5 YEARS USHS M	OVER 5 YEARS USHS M	TOTAL USHS M
ASSETS						
CASH AND BANK BALANCES WITH CENTRAL BANK	-	-	-	-	67,376	67,376
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	115,690	-	-	-	-	115,690
AMOUNTS DUE FROM GROUP COMPANIES	52,155	-	-	-	-	52,155
LOANS AND ADVANCES TO CUSTOMERS	62,710	27,922	23,848	150,186	-	264,666
GOVERNMENT SECURITIES	4,966	23,828	52,376	660		81,830
PROPERTY AND EQUIPMENT	-	-	-	-	13,789	13,789
OPERATING LEASE PREPAYMENT	-	-	-	-	3,098	3,098
INTANGIBLE ASSETS	-	-	-	-	4,022	4,022
OTHER ASSETS	-	-	-	-	26,781	26,781
TOTAL ASSETS	235,521	51,750	76,224	150,846	115,066	629,407
LIABILITIES						
CUSTOMER DEPOSITS	197,372	14,752	37,736	-	183,508	433,368
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	37,857	-	-	-	-	37,857
AMOUNTS DUE TO GROUP COMPANIES	15,253	22,875	-	-	-	38,128
OTHER BORROWED FUNDS	-	-	14,902	8,048	442	23,392
OTHER LIABILITIES	-	-	-	-	12,275	12,275
EQUITY	-	-	-	-	84,387	84,387
TOTAL LIABILITIES	250,482	37,627	52,638	8,048	280,612	629,407
NET OFF-BALANCE SHEET MISMATCH	8,339	-	-	-	56,672	65,011
INTEREST RE-PRICING GAP	(23,300	14,123	23,586	142,798		
AT 31 DECEMBER 2014						
INTEREST SENSITIVITY GAP	(94,281	52,979	42,802	100,964		

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 on 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.

AT 31 DECEMBER 2015	LEVEL 1 USHS M	LEVEL 2 USHS M	LEVEL 3 USHS M	LEVEL 4 USHS M
ASSETS MEASURED AT FAIR VALUE				
TRADING DERIVATIVES	-	2,203	-	2,203
AT 31 DECEMBER 2014				
TRADING DERIVATIVES LIABILITIES MEASURED AT FAIR VALUE	-	34	-	34

(e) Financial instruments by category

31 DECEMBER 2015	LOANS AND RECEIVABLES USHS M	HELD TO MATURITY USHS M	TOTAL USHS M
ASSETS AS PER BALANCE SHEET			
CASH AND BALANCES WITH CENTRAL BANK	67,376	-	67,376
PLACEMENTS WITH OTHER BANKS	115,690	-	115,690
AMOUNTS DUE FROM GROUP COMPANIES	52,155	-	52,155
LOANS AND ADVANCES TO CUSTOMERS	264,666	-	264,666
INVESTMENT SECURITIES:			
– HELD TO MATURITY	-	81,830	81,830
TOTAL	499,887	81,830	581,717

31 DECEMBER 2014	LOANS AND RECEIVABLES USHS M	HELD TO MATURITY USHS M	TOTAL USHS M
ASSETS AS PER BALANCE SHEET			
CASH AND BALANCES WITH CENTRAL BANK	66,337	-	66,337
PLACEMENTS WITH OTHER BANKS	29,857	-	29,857
AMOUNTS DUE FROM GROUP COMPANIES	19,241	-	19,241
LOANS AND ADVANCES TO CUSTOMERS	241,959	-	241,959
INVESTMENT SECURITIES:			
– HELD TO MATURITY	-	101,761	101,761
TOTAL	357,394	101,761	459,155

	2015 USHS M	2014 USHS M
LIABILITIES AS PER BALANCE SHEET – AT AMORTISED COST		
CUSTOMER DEPOSITS	433,368	341,748
DEPOSITS FROM OTHER BANKS	37,857	11,077
AMOUNTS DUE TO GROUP COMPANIES	38,128	32,620
OTHER LIABILITIES	12,275	9,220
OTHER BORROWED FUNDS	23,392	39,086
TOTAL	545,020	433,751

(f) Capital management

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

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

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 UShs 25 billion;

b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') 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, retained earnings, general provisions, subordinated debt and hybrid debt.

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

	2015 USHS M	2014 USHS M
CORE CAPITAL (TIER 1)		
SHAREHOLDER'S EQUITY	70,389	49,178
RETAINED EARNINGS	13,998	11,851
INTANGIBLE ASSETS	(4,022	(3,378
DEFERRED INCOME TAX ASSET	(15,991)	(10,305)
UNREALIZED FOREIGN EXCHANGE GAINS	-	(4,858)
TOTAL CORE CAPITAL	64,374	42,488
SUPPLEMENTARY CAPITAL (TIER 2)		
GENERAL PROVISIONS	2,856	2,516
SUBORDINATED DEBT	2,549	6,286
TIER 2 CAPITAL	5,405	8,802
TOTAL CAPITAL (TIER 1 AND TIER 2)	69,779	51,2909

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 2015:

	BALANCE SHEET AMOUNT		RISK WEIGHT	RISK WEIGHTED AMOUT	
	2015	2014		2015	2014
	USHS M	USHS M	%	USHS M	USHS M
BALANCE SHEET ASSETS (NET OF PROVISIONS)					
CASH AND BALANCES WITH BANK OF UGANDA	67,376	66,337	0%	-	-
AMOUNTS DUE FROM OTHER BANKS:					
RATED AAA TO AA(-)	18,618	7,963	20%	3,718	1,593
RATED A(+) TO A(-)	96,926	22,966	50%	48,393	10,943
RATED A(-) AND NON-RATED	146	1,072	100%	317	9
AMOUNTS DUE FROM GROUP COMPANIES	52,155	19,241	100%	52,155	19,241
LOANS AND ADVANCES TO CUSTOMERS	269,561	241,959	100%	269,561	241,959
INVESTMENT SECURITIES HELD TO MATURITY	81,830	101,761	0%		-
PROPERTY AND EQUIPMENT	13,789	13,987	100%	13,789	13,987
OPERATING LEASE PREPAYMENTS	3,098	3,145	100%	3,098	3,145
INTANGIBLE ASSETS (OFFSET AGAINST CORE CAPITAL)	4,022	3,378	0%	-	-
TAX RECOVERABLE	-	443	0%	-	-
DEFERRED TAX ASSETS (OFFSET AGAINST CORE CAPITAL)	15,991	10,305	0%	-	-
OTHER ASSETS	10,790	7,207	100%	10,790	7,207
ON BALANCE SHEET ASSETS	634,302	497,620		401,821	298,084
OFF-BALANCE SHEET POSITIONS					
CONTINGENTS SECURED BY CASH COLLATERAL	6,608	3,856	0%	-	
GUARANTEES AND ACCEPTANCES	3,627	53,885	100%	3,627	889
PERFORMANCE BONDS AND STANDBYS	38,393	13,126	50%	19,197	26,943
TRADE RELATED & SELF-LIQUIDATING CREDITS	14,652	3,856	20%	2,930	2,625
COMMITMENTS TO LEND	8,339	15,452	50%	4,170	7,726
OFF BALANCE SHEET ITEMS	71,619	87,208		29,924	38,183
TOTAL RISK-WEIGHTED ASSETS	701,241	584,828		431,745	336,267

CAPITAL RATIOS PER FINANCIAL INSTITUTIONS ACT (FIA) 2004		
	2015	2014
CORE CAPITAL	14.9%	12.7%
TOTAL CAPITAL	16.2%	15.3%

FIA 2004 MINIMUM RATIO CAPITAL REQUIREMENT		
CORE CAPITAL	8%	12.5%
TOTAL CAPITAL	12%	14.5%

5. Interest income

	2015 USHS M	2014 USHS M
LOANS AND ADVANCES	37,134	30,252
GOVERNMENT SECURITIES	12,394	12,856
SHORT TERM PLACEMENTS	3,024	1,068
TOTAL	52,552	44,176

6. Interest expense

	2015 USHS M	2014 USHS M
CUSTOMER DEPOSITS	9,983	9,688
DEPOSITS BY OTHER BANKING INSTITUTIONS	2,314	1,666
BORROWED FUNDS	1,406	1,779
OTHER	541	1,780
TOTAL	14,244	14,913

7. Fee and commission income

	2015 USHS M	2014 USHS M
TRANSACTIONAL FEES AND COMMISSION INCOME	34,625	13,769
CREDIT RELATED FEES AND COMMISSION INCOME	2,834	3,905
TOTAL	37,459	17,674

8. Fee and commission expense

	2015 USHS M	2014 USHS M
TRANSACTIONAL FEES AND COMMISSION EXPENSE	13,500	3,039
CREDIT RELATED FEES AND COMMISSION EXPENSE	381	295
TOTAL	13,881	3,334

9. Foreign exchange income

	2015 USHS M	2014 USHS M
REALISED FOREIGN EXCHANGE GAINS/ (LOSSES)	6,173	(1,520)
DERIVATIVE GAINS WRITE OFF	(12,270)	-
UNREALISED FOREIGN EXCHANGE (LOSSES)/ GAINS	(88)	4,858
TOTAL	(6,185)	3,338

The Bank write off an unrecoverable derivative asset of Ushs 12,270 million.

10. Operating expenses

	2015 USHS M	2014 USHS M
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 18)	3,338	3,440
AMORTISATION OF INTANGIBLE ASSETS (NOTE 20)	1,165	864
EMPLOYEE BENEFITS EXPENSE (NOTE 11)	22,640	18,810
AUDITOR'S REMUNERATION	187	148
LEGAL FEES	74	493
OTHER PROFESSIONAL FEES	1,504	4,071
RENT AND RATES	3,968	3,573
ADVERTISING AND PROMOTION	1,795	1,476
COMMUNICATION AND TECHNOLOGY	2,889	1,942
OTHER	16,094	10,660
TOTAL	53,654	45,477

11. Employee benefits expense

	2015 USHS M	2014 USHS M
SALARIES AND WAGES	17,614	15,404
NSSF CONTRIBUTIONS	1,439	1,186
DEFINED CONTRIBUTION SCHEME CONTRIBUTIONS	524	477
OTHER STAFF COSTS	3,063	1,743
TOTAL	22,640	18,810

12. Income tax credit

	2015 USHS M	2014 USHS M
CURRENT INCOME TAX CHARGE	3,675	2,203
DEFERRED INCOME TAX CREDIT (NOTE 25)	(5,687)	(3,093)
TOTAL	(2,012)	(890)
(LOSS)/ PROFIT BEFORE INCOME TAX	(1,493)	316
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2014: 30%)	(448)	95
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(3,805)	(5,659)
TAX EFFECT OF NON-DEDUCTIBLE ITEMS	(1,245)	(2,804)
FINAL TAX ON GOVERNMENT SECURITIES	3,675	2,202
PRIOR YEAR DEFERRED INCOME TAX (UNDER) PROVISION	(189)	(332)
INCOME TAX CREDIT	(2,012)	(890)

Tax recoverable was as follows;

AT START OF YEAR	443	56
CURRENT INCOME TAX CHARGE	(3,675)	(2,203)
INCOME TAX PAID	2,750	2,590
AT END OF YEAR	(482)	443

13. Cash and balances with Bank of Uganda

	2015 USHS M	2014 USHS M
CASH ON HAND	35,635	30,022
BALANCES WITH BANK OF UGANDA	31,741	36,315
TOTAL	67,376	66,337

14. Placements and deposits with other banks

	2015 USHS M	2014 USHS M
BALANCES DUE FROM OTHER BANKING INSTITUTIONS - OUTSIDE UGANDA	97,071	28,849
DEPOSITS WITH OTHER BANKING INSTITUTIONS - INSIDE UGANDA	18,619	1,008
TOTAL	115,690	29,857

15. Government securities and derivatives

(A) HELD TO MATURITY INVESTMENTS – AT AMORTISED COST

	2015	2014
TREASURY BILLS	USHS M	USHS M
FACE VALUE		
MATURING WITHIN 90 DAYS	23,596	24,914
MATURING AFTER 90 DAYS	56,154	70,200
TOTAL	79,750	95,114
UNEARNED INTEREST	(6,801)	(4,367)
TOTAL	72,949	90,747
TREASURY BONDS		
MATURING WITHIN 90 DAYS	-	-
MATURING AFTER 90 DAYS	9,595	10,710
TOTAL	9,595	10,710
UNEARNED (INTEREST)/PREMIUM	(714)	304
TOTAL	8,881	11,014
TOTAL HELD-TO-MATURITY	81,830	101,761

(B) DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

TREASURY BILLS	2015 USHS M	2014 USHS M
CURRENCY FORWARD AND SWAPS - ASSET	2,203	34

16. Loans and advances to customers

(A) ANALYSIS OF LOAN ADVANCES TO CUSTOMERS BY CATEGORY:

	2015 USHS M	2014 USHS M
TERM LOANS	219,957	215,466
OVERDRAFTS	50,819	31,560
GROSS LOANS AND ADVANCES	270,776	247,026
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(3,539)	(2,468)
- COLLECTIVELY ASSESSED	(2,570)	(2,599)
TOTAL	264,666	241,959

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

	INDIVIDUALLY ASSESSED USHS M	COLLECTIVELY ASSESSED USHS M	TOTAL USHS M
YEAR ENDED 31 DECEMBER 2015			
AT 1 JANUARY	2,468	2,599	5,067
PROVISION FOR LOAN IMPAIRMENT	7,379	-	7,379
AMOUNTS RECOVERED DURING THE YEAR	(1,382)	(29)	(1,411)
TRANSFERS	-	-	-
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(4,926)	-	(4,926)
AT 31 DECEMBER	3,539	2,570	6,109
YEAR ENDED 31 DECEMBER 2014			
AT 1 JANUARY	11,681	820	12,501
PROVISION FOR LOAN IMPAIRMENT	7,885	1,779	9,664
AMOUNTS RECOVERED DURING THE YEAR	(5,960)	-	(5,960)
TRANSFERS	-	-	-
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(11,138)	-	(11,138)
AT 31 DECEMBER	2,468	2,599	5,067

(B) IMPAIRMENT LOSSES CHARGED TO PROFIT OR LOSS

	2015 USHS M	2014 USHS M
PROVISION FOR LOAN IMPAIRMENT (NOTE 16 (A))	7,379	9,748
AMOUNTS RECOVERED DURING THE YEAR (NOTE 16 (A))	(1,411)	(5,960)
TOTAL	5,968	3,788

(C) REGULATORY RESERVE

Analysis as per Bank of Uganda guidelines

TOTAL PROVISION AS PER IFRS	3,539	2,468
INDIVIDUALLY ASSESSED (NOTE 16 (A) COLLECTIVELY ASSESSED	2,570	2,599
TOTAL	6,109	5,067
TOTAL PROVISIONS AS PER BOU GUIDELINES		
SPECIFIC PROVISIONS	2,816	4,179
GENERAL PROVISIONS	2,856	2,516
TOTAL	5,672	6,625
REGULATORY RESERVE		
AT 1 JANUARY	(1,628)	(1,927)
TRANSFER TO THE REGULATORY RESERVE	1,628	299
AT 31 DECEMBER	-	(1,628)

17. Other assets

	2015 USHS M	2014 USHS M
ACCOUNTS RECEIVABLE AND PREPAYMENTS	5,460	4,669
ITEMS IN TRANSIT	1,755	1,468
OTHER	894	680
STATIONERY STOCKS	477	356
TOTAL	8,587	7,173

18. Property and equipment

	BUILDINGS USHS M	MOTOR VEHICLES USHS M	FIXTURES FITTINGS AND EQUIPMENT USHS M	WORK IN PROGRESS USHS M	TOTAL USHS M
YEAR ENDED 31 DECEMBER 2015					
OPENING NET BOOK AMOUNT	2,859	789	10,017	322	13,987
ADDITIONS	-	-	-	3,240	3,240
TRANSFERS FROM WIP	-	836	1,630	(2,466)	-
WRITE-OFFS	-	-	-	(100)	(100)
DEPRECIATION CHARGE	(73)	(322)	(2,943)	-	(3,338)
CLOSING NET BOOK AMOUNT	2,786	1,303	8,704	996	13,789
COST	3,470	2,291	25,667	996	32,424
ACCUMULATED DEPRECIATION	(684)	(988)	(16,963)	-	(18,635)
NET BOOK AMOUNT	2,786	1,303	8,704	996	13,789
YEAR ENDED 31 DECEMBER 2014					
OPENING NET BOOK AMOUNT	2,932	198	11,328	820	15,278
ADDITIONS	-	437	1,866	290	2,593
DISPOSALS	-	(69)	(35)	-	(104)
TRANSFERS FROM WIP	-	351	34	(788)	(403)
WRITE-OFFS	-	-	(54)	-	(54)
DEPRECIATION CHARGE	(73)	(197)	(3,170)	-	(3,440)
DEPRECIATION ON DISPOSALS	-	69	17	-	86
DEPRECIATION ON WRITE OFFS	-	-	31	-	31
CLOSING NET BOOK AMOUNT	2,859	789	10,017	322	13,987
COST	3,470	1,457	24,037	322	29,286
ACCUMULATED DEPRECIATION	(611)	(668)	(14,020)	-	(15,299)
NET BOOK AMOUNT	2,859	789	10,017	322	13,987

19. Operating lease prepayments

	2015 USHS M	2014 USHS M
COST		
AT 1 JANUARY	3,440	3,440
ADDITIONS	-	-
AT 31 DECEMBER	3,440	3,440
AMORTISATION		
AT 1 JANUARY	295	248
CHARGE FOR THE YEAR	47	47
AT 31 DECEMBER	342	295
NET BOOK VALUE		
AT 31 DECEMBER	3,098	3,145

20. Intangible assets

	2015 USHS M	2014 USHS M
NET BOOK AMOUNT AT 1 JANUARY	3,378	2,879
ADDITIONS: COMPUTER SOFTWARE	2,343	960
TRANSFERS FROM WORK IN PROGRESS	(528)	403
WRITE-OFFS	(6)	-
AMORTISATIONS	(1,165)	(864)
AMORTISATION ON WRITE-OFFS	-	-
NET BOOK AMOUNT AT 31 DECEMBER	4,022	3,378
COST	8,669	6,860
ACCUMULATED DEPRECIATION	(4,647)	(3,482)
NET BOOK AMOUNT	4,022	3,378

The intangible assets relate to computer software acquired to support the Bank's operations. This software is not an integral part of the related computer hardware and has therefore been presented as an intangible asset in accordance with IAS 38, Intangible assets.

21. Customer deposits

		2015 USHS M	2014 USHS M
(A)	CURRENT AND DEMAND DEPOSITS	207,151	152,931
	SAVINGS ACCOUNTS	148,472	119,015
	FIXED DEPOSIT ACCOUNTS	70,430	62,418
	MARGIN DEPOSITS	7,315	7,384
TOTAL		433,368	341,748
(B)	SECTORAL ANALYSIS - CUSTOMER DEPOSITS		
	BANKS AND FINANCIAL INSTITUTIONS	29,842	20,655
	PRIVATE ENTERPRISES AND INDIVIDUALS	135,543	101,957
	GOVERNMENT AND PARASTATALS	44,716	24,606
	AGRICULTURE	7,811	8,041
	BUILDING AND CONSTRUCTION	26,549	34,264
	MANUFACTURING	8,008	6,220
	TRADE AND COMMERCE	52,594	48,088
	TRANSPORT AND UTILITIES	24,000	22,258
	OTHER SERVICES	104,305	75,659
TOTAL		433,368	341,748

22. Deposits and balances due to other banking Institutions

		2015 USHS M	2014 USHS M
	ITEMS IN COURSE OF COLLECTION	37,857	10,417
TERM DEPOSITS		37,857	11,077

The deposits with other banking institutions are interest bearing.

23. Other borrowings

		2015 USHS M	2014 USHS M
	EIB - PRIVATE ENTERPRISE FINANCE FACILITY	7,426	8,819
	FMO - TERM FACILITY	12,284	18,042
	PROPARCO – SUBORDINATED LOAN	2,549	6,286
	BOU AGRICULTURAL CREDIT FACILITY	1,133	1,967
	IFC TERM FACILITY	-	3,972
TOTAL		23,392	39,086

The EIB - Private Enterprise Finance Facility relates to a line of credit granted to the Bank for financing projects to be carried out in Uganda by private enterprises or microfinance institutions in selected sectors. Each tranche of these funds attracts a fixed rate based on the twelve month average of interest rates offered by Ugandan

deposit-taking banks for three months term deposits as published by Bank of Uganda plus a margin. Each tranche has a minimum tenor of three years and a maximum tenor of ten years.

The International Finance Corporation (IFC) term facility provides funding to be used by the Bank to finance its lending operations to small, medium enterprises, retail and corporate business in accordance with the provisions of the agreement. The interest rate for any relevant period is the sum of the relevant spread and LIBOR on the interest determination date for that interest period for six (6) months. The funds are advanced for a period of five years.

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

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

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

24. Other liabilities

	2015 USHS M	2014 USHS M
BILLS PAYABLE	424	645
CREDITORS	4,626	4,264
ACCRUALS	6,589	4,066
OTHER	154	1,457
TOTAL	11,793	10,432

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:

	2015 USHS M	2014 USHS M
ACCELERATED CAPITAL ALLOWANCES	(1,334)	(1,974)
TAX LOSSES BROUGHT FORWARD	13,780	13,209
PROVISIONS FOR LOAN IMPAIRMENT	988	266
OTHER PROVISIONS	319	45
UNREALISED TRANSLATION DIFFERENCES	2,255	(1,224)
PRIOR YEAR ADJUSTMENTS	(17)	(17)
NET DEFERRED TAX ASSET	15,991	10,305

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

	2015 USHS M	2014 USHS M
AT START OF THE YEAR	10,305	7,212
PRIOR PERIOD ADJUSTMENTS	–	
INCOME STATEMENT CREDIT – CURRENT YEAR (NOTE 12)	5,686	3,093
AT END OF THE YEAR	15,991	10,305

26. Share capital

	NUMBER OF SHARES ISSUED FULLY PAID (THOUSANDS)	ORDINARY SHARED USHS M	SHARE PREMIUM USHS M
2014			
BALANCE AT 1 JANUARY 2014	29,499	29,499	10,891
RIGHTS ISSUE OF SHARES	4,922	4,922	3,866
BALANCE AT 31 DECEMBER 2014	34,421	34,421	14,757
2015			
BALANCE AT 1 JANUARY 2015	34,421	34,421	14,757
RIGHTS ISSUE OF SHARES	12,354	12,354	8,857
BALANCE AT 31 DECEMBER 2015	46,775	46,775	23,614

The total authorised number of ordinary shares is UShs 46.7 million (2014: 35.1 million) with a par value of UShs 1,000 per share.

In December 2014 the board approved a rights issue of 20,000,000 shares at a price of UShs 1,713 per share which were payable by 31 January 2015 and were all fully paid up. This brought the total issued ordinary shares to 46.7 million with a par value of UShs 1,000 per share.

27. Bank shareholding

The Bank shareholders are as follows;

SHAREHOLDING:	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA - KENYA LTD.	43.24%	KENYA
AFRICAN FINANCIAL HOLDING (AFH) - OCEAN INDIEN	37.96%	MAURITIUS
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	11.04%	THE NETHERLANDS
CENTRAL HOLDINGS LTD.	7.76%	UGANDA
TOTAL	100.00%	

28. Analysis of cash and cash equivalents

	2015 USHS M	2014 USHS M
CASH AND BALANCES WITH BANK OF UGANDA (NOTE 13)	67,376	66,337
LESS: CASH RESERVE REQUIREMENT (SEE BELOW)	(34,669)	(27,340)
GOVERNMENT SECURITIES - MATURING WITHIN 90 DAYS (NOTE 15)	23,596	24,914
PLACEMENTS WITH OTHER BANKS (NOTE 14)	115,690	29,857
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 32(A))	52,155	19,241
TOTAL	224,148	113,009

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

Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Uganda. Banks are required to maintain a prescribed minimum cash balance with the Bank of Uganda that is not available to finance the Bank's day-to-day activities. The amount is determined as 8% of the average outstanding customer deposits over a cash reserve cycle period of two weeks.

29. Earnings per share

	2015 USHS M	2014 USHS M
PROFIT /(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (USHS M)	519	1,206
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES IN ISSUE (THOUSANDS)	40,929	32,070
EARNINGS/ (LOSS) PER SHARE (EXPRESSED IN USHS PER SHARE)	13	38

In December 2014, there was a rights issue of UShs 20,000 million at a price of UShs 1,713 which explains the increase in the weighted average number of ordinary shares in 2015.

There were no potentially dilutive shares outstanding at 31 December 2015 (2014: Nil).

30. Related party balances

	2015 USHS M	2014 USHS M
(A) DUE FROM GROUP COMPANIES		
BANK OF AFRICA - D.R. CONGO	16,920	5,551
BANK OF AFRICA - FRANCE	4,795	1,015
BANK OF AFRICA - KENYA	13,477	12,637
BANK OF AFRICA- GHANA	16,955	-
BANK OF AFRICA - TANZANIA	8	10
BMCE BANK INTERNATIONAL	30	28
TOTAL	52,155	19,241

(B) AMOUNTS DUE TO GROUP COMPANIES

	2015 USHS M	2014 USHS M
BANK OF AFRICA - MER ROUGE	32,127	26,480
BANK OF AFRICA - KENYA	5,834	6,050
BANK OF AFRICA - TANZANIA	4	2
BANK OF AFRICA - D.R. CONGO	143	68
BMCE BANK INTERNATIONAL	20	20
TOTAL	38,128	32,620

(C) RELATED PARTY BALANCES

	2015 USHS M	2014 USHS M
DEPOSITS FROM DIRECTORS AND SHAREHOLDERS	119	68
LOANS TO DIRECTORS	5	1,183
ADVANCES TO STAFF	6,705	3,899
TOTAL	6,710	5,082

Loans to directors are at 25-30% interest rate with an average tenor of 3 years. Advances to staff comprise of mortgages at 10% with an average tenor of 10 – 15 years and personal loans at 5% with maturities ranging from 2-4 years. These were all on schedule as at 31 December 2015.

(D) RELATED PARTY TRANSACTIONS

	2015 USHS M	2014 USHS M
INTEREST:		
INTEREST PAID TO RELATED PARTIES/DIRECTORS	798	167
INTEREST EARNED FROM RELATED PARTIES	779	51
DIRECTORS' REMUNERATION:		
DIRECTORS' FEES	623	576
OTHER EMOLUMENTS	3,702	3,459
TOTAL	4,325	4,035
KEY MANAGEMENT COMPENSATION:		
SALARIES AND SHORT-TERM BENEFITS	3,183	2,956
TERMINAL BENEFITS	81	79
TOTAL	3,264	3,035
EXPENSES:		
AFH TECHNICAL SERVICES	1,504	2,749

(31) Off-balance sheet financial instruments, contingent liabilities and commitments

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

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

The following are the commitments outstanding at year end:

	2015 USHS M	2014 USHS M
GUARANTEES AND ACCEPTANCESACCEPTANCES AND LETTERS OF CREDIT	4,233	989
PERFORMANCE BONDS AND STANDBYS	44,395	57,641
TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDIT	14,652	13,126
TOTAL	63,280	71,756

Non-trade contingent liabilities

There were outstanding legal proceedings against the Bank as at 31 December 2015 which arise from normal day to day banking operations. In the opinion of the directors, after taking professional legal advice, the estimated potential liability to the Bank from these proceedings is Ushs 520 million (2014: UShs 498 billion).

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 withdrawfrom its contractual obligations to extend credit by giving reasonable notice to the customers. At 31 December, these included;

	2015 USHS M	2014 USHS M
APPROVED ADVANCES NOT UTILIZED	8,339	15,452