

Innovation for Efficient Service Delivery



AnnualReport **2015**

Housing Finance Bank

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List of Acronyms

ACF	:	Agricultural Credit Facility (ACF)
ADB	:	African Development Bank
ALCO	:	Assets and Liabilities management Committee
ALGC	:	Agribusiness Loan Guarantee Company Limited
BOU	:	Bank of Uganda
EIB	:	European Investment Bank
EIR	:	Effective Interest rate
FIA 2004	:	Financial Institutions Act, 2004
GoU	:	Government of Uganda
HFB	:	Housing Finance Bank Limited
IAS	:	International Accounting Standards
IFRIC	:	International Financial Reporting Interpretations Committee
IFRS	:	International Financial Reporting Standards
LIBOR	:	London Interbank offer rate
NHCCL	:	National Housing & Construction Company Limited
NPL	:	Non-performing loan
NSSF	:	National Social Security Fund
PSHS	:	Public Servants Housing Scheme
ROA	:	Return on assets
ROE	:	Return on equity
RWA	:	Risk-weighted assets
TAT	:	Tax Appeals Tribunal
URA	:	Uganda Revenue Authority
USD	:	United States Dollar
Ushs	:	Uganda Shillings – sometimes abbreviated as UGX.
VAT	:	Value Added Tax
WIP	:	Work in progress

Vision, Mission and Ownership

Who we are

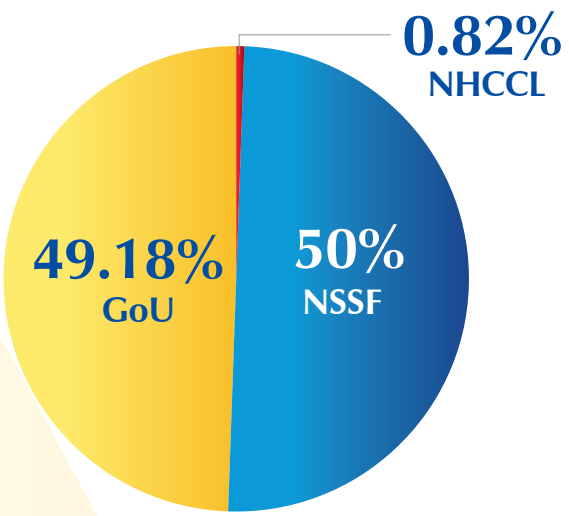
First incorporated in 1967 as Housing Finance Company of Uganda Limited carrying out business as a non-banking credit institution with focus on providing mortgage finance for construction of residential houses and also accepting savings deposits from the public, is licensed and regulated by Bank of Uganda as a commercial Bank since 2007 to carry on business of banking under the Financial Institutions Act No 2 of 2004 and also changing name to Housing Finance Bank limited.

Registered Office

Our home is located at Investment House on Plot 4 Wampewo Avenue Kololo.

Ownership

The major Shareholders of Housing Finance Bank Include:National Social Security Fund (NSSF) 50%, the Government of Uganda (GOU) represented by the Minister of Finance, Planning & Economic Development 49.18% and National Housing & Construction Company (NHCC) 0.82%, and with authorised and paid up capital of Ushs 61 billion(Sixty one billion Uganda shillings)



Vision: To be the preferred Bank that enables its customers realize their financial aspirations, especially housing finance.

Mission: To provide efficient, innovative, convenient and market-led financial services, especially housing to all so as to maximize stakeholder value.

Values

Excellence: We are willing, able and committed to accomplishing tasks and delivering results over and above specified standards

Respect: We are dedicated to recognizing and honoring the diversity of ideas, talents and opinions among our customers, colleagues and all other stakeholders in the execution of our work.

Integrity: We are committed to upholding acceptable moral standards and principles in our actions towards customers and all other stakeholders.

Customer-Centricity: We are able and dedicated to focusing all our actions and thinking towards the superior satisfaction of our customers' needs and expectations

Board of Directors



Mr. Keith Muhakanizi
Chairman of the board

Mr. Muhakanizi is the Chairman of the Board of Directors of Housing Finance Bank and has been a Director since its establishment as a Commercial Bank in November 2007. He is currently the Permanent Secretary and Secretary to the Treasury in the Ministry of Finance, Planning and Economic Development. Mr. Muhakanizi has a wealth of experience as a Director and Chairman having served on the Boards of several Organizations in both capacities. He is a highly experienced Economist and is instrumental in the macroeconomics policy and planning, financial sector growth and private sector growth in Uganda. He holds among other qualifications, a Masters of Sciences in Development Economics from the University of Manchester, United Kingdom.



Mr. Opiokello David
Non - Executive Director

Mr. Opiokello has served on the Board of the Bank for 6 years as a Non-Executive Director. He previously held the position of Ag. Deputy Governor, Bank of Uganda, where he worked for 28 years prior to his retirement. He has vast knowledge of the Banking industry and is a professionally experienced Certified Accountant. He is a founding member of the Institute of Certified Public Accountants of Uganda (ICPAU) and a member of the Association of Certified Chartered Accountants (ACCA) of the United Kingdom. He also serves as a Director on the Boards of other Organisations.



Mr. Patrick M. Ayota
Non - Executive Director

Mr. Ayota has served on the Board of the Bank for 3 years as a Non-Executive Director. He is currently the Chief Finance Officer at National Social Security Fund. He has over 22 years' experience in Accounting and Finance. He is a Certified Public Accountant and holds, among other qualifications, a Masters of Business Administration from the University of South Carolina, United States of America.



Ms. Sarah Walusimbi
Non - Executive Director

Ms. Walusimbi has served on the Board of the Bank for 3 years as a Non- Executive Director. She is a Corporate Lawyer with over 29 years of experience in both the public and private sectors as a Company Secretary and Head of Legal Services. She also serves as a Director on the Boards of a number of Organizations and is a certified trustee in pension fund management. She holds, among other qualifications, a Masters Degree in Business Administration from the Eastern and Southern African Management Institute Arusha, a Bachelor of Laws Honours Degree from Makerere University Kampala and is a qualified Advocate of the High Court of Uganda and other Courts of Judicature.



Mr. Frank Katusiime
Non - Executive Director

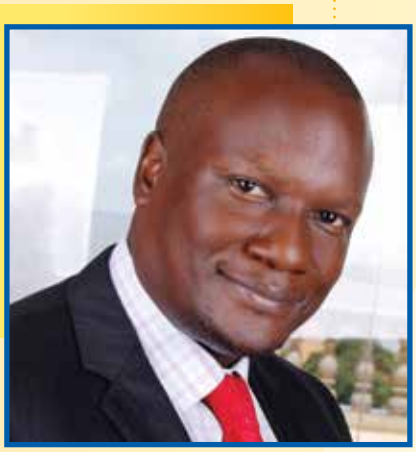
Mr. Katusiime has served on the Board of the Bank for 2 years as a Non-Executive Director. He is currently the Chief Executive Officer of Business Initiatives International, a firm that provides business consulting services and solutions. He is a certified balanced scorecard practitioner. He has also worked with and/or been a Consultant for several government and non-governmental Institutions including, URA, KCC, CAA, UIA, UMI, PSFU, The New Vision and Oxfam International. He also serves as a Director on the Boards of other organisations. He holds, among other qualifications, a Bachelor of Commerce Degree from Makerere University, a Masters of Science Degree in Fiscal Studies from the University of Bath, United Kingdom and a Postgraduate Diploma in Management Control and Management Information Systems from Maastricht School of Management in the Netherlands.



Ms. Geraldine Ssali
Non Executive Director

Ms. Ssali Busuulwa has served on the Board of the Bank for 3 years as a Non-Executive Director. She is currently the Deputy Managing Director at National Social Security Fund. She has over 11years' experience in Management and Finance. She served as the Head of the Directorate Management Unit in Her Majesty's Treasury, Ministry of Finance, United Kingdom.

She is a Fellow of the Institute of Management Accountants and holds, among other qualifications, a Masters Degree in Business Administration in Finance from the University of Manchester, United Kingdom.



Mr. Mathias Katamba
Managing Director

Mr. Katamba is the Managing Director of the Bank and has served on the Board for 2 years. He possesses a wealth of leadership experience in the financial sector in Uganda and in the East African region. Prior to joining Housing Finance Bank he was the Co-founder and Managing Partner of Progression Capital Africa a USD. 40 million Private Equity Fund based in Mauritius set up to provide capital and technical support to microfinance institutions (MFIs) in Uganda, Kenya, Tanzania, Rwanda and Zambia.

Before that he was the Chief Executive Officer of Finance Trust, now Finance Trust Bank for 5 years during which he transformed the institution from a deposit taking MFI to acquiring regulatory approval for a Tier 1 Commercial Bank. He has also previously served as the Chairman/National President of the Association of MFIs in Uganda (AMFIU), member of the investment committee of the Deutsche Bank Global Commercial Microfinance Consortium, member of the Steering Committee for Client Protection (SMART campaign) at the Center for Financial inclusion and director at the Private Sector Foundation in Uganda.

He had leadership training from Harvard Kennedy School, Harvard University and Wharton Business School, University of Pennsylvania. He holds a Postgraduate Diploma in Public Relations from the Chartered Institute of Public Relations, Master of Science Degree in Financial Management from the University of East London and a Bachelor of Arts Degree in Economics from the University of Greenwich.



Mr. Michael K. Mugabi
Executive Director

Mr. Mugabi is an Executive Director at the Bank and has served on the Board for 3 years. He possesses over 15 years' experience as a Legal practitioner and has served in various capacities in the Bank including as Company Secretary, Head Legal Services and Head Human Resources.

He is a Fellow of the Chartered Institute of Chartered Secretaries and Administrators, United Kingdom and also serves as a Council Member at the Institute of Corporate Governance of Uganda. He has a Master of Laws Degree in Commercial and Corporate Law from the University of London, United Kingdom, a Bachelor of Laws Honours Degree from Makerere University Kampala, among other professional qualifications. He is also a qualified Advocate of the High Court of Uganda and other Courts of Judicature.



Ms. Anne Abeja
Company Secretary/
Head of Legal and
Compliance

Ms. Abeja has served as Company Secretary and Head of Legal and Compliance for 2 years. She has over 10 years' experience as a Company Secretary and a Legal practitioner. She is a Chartered Secretary and member of the Institute of Chartered Secretaries and Administrators United Kingdom.

She holds a Masters Degree in Business Administration from the Eastern and Southern African Management Institute, Arusha and a Bachelor of Laws Honours Degree from Makerere University Kampala, among other professional qualifications. She is also a qualified Advocate of the High Court of Uganda and other Courts of Judicature.

Meet our Senior Management Team



Mr. Mathias Katamba
Managing Director



Mr. Michael Mugabi
Executive Director - Operations



Mr. Medad Mwesigwa
Chief Finance Officer



Ms. Hope Ekudu
Head of Retail Banking



Mr. Philip Miiro Kwagala
Head Credit



Mrs. Muyinda Judith
Head of Marketing and Product Development



Mr. Paul Nuwagaba
Head of Business Banking



Mrs. Marietta Naiga Mwesigwa
Head of Risk



Mr. Robert Nyehangane
Head of Treasury & Investments



Ms. Anne Abeja
Company Secretary/Head of Legal and Compliance



Mr. Ronald Bbosa
Head of Human Resources



Mr. Peter Angubua
Head Information Technology



Mr. Ninyikiriza David Dansor
Head Mortgages and Development Finance



Mrs. Dorothy Nseka Kiyaga
Head of Internal Audit



Mr. Christopher Kabagambe
Head Bank Operations

Corporate Governance

Corporate Governance Statement

Housing Finance Bank is committed to establishing and upholding best corporate governance practices which are vital for the sustainability of the Bank as a going concern and enhancing shareholder value. The Board proactively adopts governance policies and practices designed to align the interest of the Board and Management with those of the Shareholders and other Stakeholders. This corporate governance statement highlights the governance framework of the Bank and key activities for 2015.

Governance Framework

Housing Finance Bank is a public limited company. As one of the supervised Financial Institutions in Uganda, the Bank is regulated by Bank of Uganda under the Financial Institutions Act, 2004, the Regulations made there-under and other prudential guidelines and norms. The Bank operates under a well-defined legal framework in addition to firmly established governance structures.

The shareholding of the Bank is detailed on page 3.

Shareholders

The Shareholders nominate the Directors on the Board of the Bank to exercise oversight on the strategic direction and operations of the Bank. In exercising its mandate, the Board of Directors acts collectively as a body to achieve the Strategic Objectives of the Bank, its Vision and Mission.

The Board provides accountability to the shareholders through the Annual Shareholders General Meetings.

Board of Directors

Board Composition

As at December 31, 2015, the Board had Eight (8) Directors, six (6) of whom were Non-Executive Directors and two (2) Executive Directors supported by the Company Secretary.

Board Appointment

The appointment of Directors is made in line with the Bank's Memorandum and Articles of Association and the Board Charter. Each of the appointments complied with the requirements of the Companies Act, 2012 and the Financial Institutions Act, 2004.

Role of the Board

The Bank has an effective and independent Board which provides strategic direction and has ultimate responsibility for the operations of the Bank. The Board is accountable for all decisions taken by its Board Committees and has the responsibility to ensure that the Bank has effective management and that adequate succession plans are in place.

The Board is also responsible for overseeing the Bank's internal control systems. These controls are designed both to safeguard the Bank's assets and to ensure the reliability of the financial information used within the business operations.

The Board's mandate is set out in the Board Charter which is regularly reviewed to align it to the Regulatory guidelines and best governance practices. The key responsibilities are executed in line with an annual Board Work plan set prior to the beginning of each financial year.

Board Committees

The Board committees all operate on well-defined and agreed mandates set out in their terms of reference which are reviewed at least once annually to align them with best corporate governance practice.

All board committees are composed of at least two Non-Executive Directors. The Committees are constituted as follows in line with the Financial Institutions Act.

The Board Compensation Committee

The composition is as follows:

1) Ms. Sarah Walusimbi - Chairperson

2) Mr. Frank Katusiime - Member

3) Ms. Geraldine Ssali - Member

This committee is responsible for all matters concerning the Organizational structure, the composition and other issues affecting the Bank's Human Resources. It is also responsible for recruitment, succession planning, remuneration and performance appraisal of Executive and Senior Management.

The Board Audit Committee

The composition is as follows:

1) Mr. David G. Opiokello - Chairperson

2) Mr. Patrick Ayota - Member

3) Ms. Sarah Walusimbi - Member

This Committee considers all matters relating to the integrity of the Bank's financial reporting including related policy formulation and review. It also considers the Bank's annual budget, effectiveness of the Bank's internal controls and the activities of the Auditors of the Bank.

This committee ensures that the Internal Audit function is structurally independent and free from undue influence by Management. It also conducts the annual performance appraisal of the Head of Internal Audit.

The Board Asset and Liability Committee (ALCO)

The composition is as follows:

1) Mr. Patrick Ayota - Chairperson

2) Mr. Frank Katusiime - Member

3) Ms. Geraldine Ssali - Member

This Committee considers and reviews all matters relating to policy and procedures formulation regarding asset and liability management. It also reviews the credit, liquidity, interest rate, and currency risk management. The committee provides oversight on the performance of the bank in terms of profitability and efficiency, overall product delivery and pricing. It also considers facility applications within its mandate.

The Board Risk Management Committee

The composition is as follows:

1) Mr. Frank Katusiime - Chairperson

2) Mr. David G. Opiokello - Member

This committee exercises oversight over the Bank's Enterprise-wide risk, compliance and Anti-Money Laundering programs. It reviews risk management policies and procedures and its overall risk appetite, tolerance and strategy taking into account the current and projected economic political and social environment. It also reviews Bank policies and procedure Manuals to assess the effectiveness of the Bank's internal controls and risk management framework in order to achieve a prudential balance between risks and potential returns. Additionally the committee makes periodic assessments of the Bank's long-term capital adequacy status.

The committee reviews reports from the Risk committee of Management and monitors Management's responsiveness to the findings and recommendations arising out of the reports within the prudential and statutory risk management guidelines.

Board and Board Committee meetings in 2015

In furtherance of its oversight function, the Board and its Committees meet at least once quarterly to consider matters relating to the performance and operations of the Bank.

Below is the summary of the Board and Board Committee meetings held during 2015

Ref	Board meeting	Number of meetings
1	Full Board	5
2	Asset and liabilities Committee	9
3	Risk management Committee	4
4	Audit Committee	8
5	Compensation Committee	9

Board Induction and training

The Directors bring to the Board skills, knowledge and experience from their respective fields. They receive detailed orientation on the Bank's operations and the business environment and responsibilities as Directors. On-going training and development is structured to cater for the needs of individual directors and the Bank. During the year, the Directors received re-fresher training on the following areas:

a) Change Management and Balanced scorecard

b) Board Audit Committee governance

c) Credit Risk Management

d) Governance, Risk and Compliance

e) Asset and Liability Management

Board Performance Evaluation

Board performance is key to the success of the Bank and the realization of Shareholder value. Therefore, Board performance evaluation continues to be a channel through which the Board assesses its effectiveness in execution of its mandate. The Bank carried out a Board evaluation/ appraisal facilitated by the Institute of Corporate Governance (ICGU) the results of which were utilized to improve the Board effectiveness and performance.

Role of the Company Secretary

The Board is supported by a Company Secretary whose key roles and responsibilities are set out in the Board Charter. The Company Secretary plays a pivotal role in ensuring efficient functioning of the Board and smooth coordination between the Board, Management, Shareholders and other relevant stakeholders. The Company Secretary also supports the Board in championing best practices in Corporate Governance.

The Company Secretary is charged with ensuring that the Board remains cognizant of its duties and responsibilities. The Company Secretary also has the responsibility of ensuring that Board meetings are well facilitated and with

the assistance of a fully equipped secretariat, ensures that the Board of directors receives accurate and timely information to enable effective decision making at each Board and Committee meeting. The Company Secretary also oversees the orientation/induction, evaluation, training and skilling of the Board of directors and in addition acts as the information channel between the Board of Directors and Shareholders.

Executive Management

Managing Director

The Managing Director of the Bank reports directly to the Board and is responsible for the overall performance of the organization at a strategic level. This role also oversees the conduct of all the operations of the Bank through the Heads of Department and also provides functional support to the Internal Audit function.

Executive Director Operations

The Executive Director Operations superintends over the ICT, Projects, Credit and Bank Operations departments of the Bank. The Operations Division supports the business and other key areas of the Bank. This role also administratively supports the Managing Director.

Senior Management Team

The Bank has Heads of Department who form the Senior Management team and their respective departments are categorized into business and support functions.

Departments And Their Roles

Mortgage and Development Finance

The department is responsible for acquisition and retention of the Bank's housing finance and mortgage products suite for the commercial and consumer segments of the Bank's clientele. This includes sales for assets and relationship management within the risk management frame work of the Bank. It is also involved in guiding the development of the Bank's product offering within these segments.

Business Banking

The department is responsible for acquisition and retention of the Bank's business products suite for the commercial, small and medium enterprise segments of the Bank's clientele. This includes sales for assets and relationship management within the risk management frame work of the Bank. It is also involved in guiding the development of the Bank's product offering within these segments.

Retail Banking

The department is responsible for acquisition and retention of business in the consumer segment of the Banks clientele. This includes sales for assets, liabilities and relationship management within the risk management frame work of the Bank. It is also involved in guiding the development of the Banks consumer product offering within this segment. The department is administratively in charge of business development, operational rigor and overall performance of the Bank's entire delivery channel network.

Treasury

The department is charged with the responsibility of overall management of the balance sheet of the bank which involves liquidity, interest rate and currency risk management especially in terms of meeting the business needs of the Bank and adhering to the laid down statutory and prudential limits. In addition the department performs the role of asset and liability management through the Management Asset and Liability committee, sources long term funding, invests surplus funds, trades currencies and handles the development aspects of the custodial services business.

Credit

The Credit department supports the growth and maintenance of a credit portfolio of the highest quality through the establishment and management of sound credit risk management policies and procedures, management of the credit underwriting process, monitoring of the Banks overall credit exposure with a view to minimizing the occurrence of delinquency and ensuring timely collection or redemption of credits advanced.

Bank Operations

The department is charged with the responsibility of managing the Banks processes and procedures in relation to cash handling, trade services, payment systems and settlements plus reconciliation of transaction items as part of control rigor within operations as a department and across the entire branch network.

Human Resources

The department is responsible for the Human Resource function which entails planning, budgeting, policy formulation and implementation in the areas of attraction, development, maintenance and management of human capital.

Information Technology

The Information Technology function is charged with the responsibility of providing effective and efficient Information Technology services that support the Bank's business processes. The department implements, monitors the performance of technology services and supports the users of the technology services for the Bank. The detailed technology functions include system security, information technology support, hardware, in-frastructure and business applications.

Marketing and Product Development

The department is responsible for supporting business growth through development and implementation of marketing strategies for the Banks products and services. The department also conducts research and analysis to enable introduction of new products and services in consultation with the respective business owners.

Finance Department

The Finance department is charged with the responsibility of enhancing the credibility and objectivity of the financial statements and reports prepared with reference to the affairs of the Institution and managing the Institution's financial risks. The department is responsible for planning, directing and controlling the financial resources of Housing Finance Bank so that all financial obligations are met as required. It also ensures satisfactory overall financial management of Housing Finance Bank in line with the FIA Act and regulations, and Housing Finance strategic plan.

Legal and Compliance

The department is in charge of regulatory compliance, contracts management, corporate governance and Board secretarial services, litigation and recovery, registration and management of collateral plus providing legal advisory services to all bank operations. The department is also involved in the credit underwriting process of the bank in terms of identifying legal risk, mitigation and business growth.

Internal Audit Department

The role of the internal audit department is to provide assurance to management and the Board on the conduct of all the operations of the Bank. The department assesses compliance with policies, procedures, regulations, laws, and evaluates the reliability of financial information to improve the effectiveness of controls and processes. Internal audit carries out analysis, makes recommendations and provides information concerning the activities reviewed. The Head of Audit reports administratively to the Managing Director and functionally to the Audit Committee of the Board of directors. In carrying out their duties and responsibilities, members of the internal audit department have

full, free, and unrestricted access to all organization activities, records property, and personnel.

Risk Department

The department is responsible for the process of identification, measuring, monitoring, controlling and reporting of risks in the Banks overall operational environment. The department supports development of risk management strategy, policy and procedures, risk awareness culture plus tracking of related compliance for both internal and regulatory stakeholders. It also performs internal control checks to provide assurance to management, the Board and the regulator on consistent implementation of risk management. In addition the department is responsible for the Business Continuity Management process in Bank.

Administration Section

The function handles all administration matters including policy development, facilities management, procurement, records management, Bank security and relationship management with external service providers.

Financial Definitions

Profit For The Year (Shs)	Annual profit attributable to shareholders
Earnings Per Share (Shs)	Earning attributable to ordinary shareholders divided by the weighted average number of ordinary shares
Return On Equity (%)	Equity as percentage of average equity
Return On Assets (%)	Earnings as a percentage of average total assets
Net Interest Margin (%)	Net interest income as a percentage of average earning assets
Credit Loss Ratio (%)	Provision of credit losses per income statement as a percentage of average net loans
Non-Performing Loans (NPL)	Loans whose servicing is due but the borrower has no money on the account for settlement
Credit Loss Impairment (Shs)	The amount by which Gross loans are written down to cater for non-performing loans
Credit Impairment Charge (Shs)	The amount charged to the income statement during the period to cater for the effect of non-performing loans for the period
Cost To Income Ratio (%)	Total operating expenses as a percentage of total income
Effective Tax Rate (%)	The income tax charge as a percentage of income before tax
Dividend Per Share (Shs)	Total ordinary shares declared per share with respect to the year
Core Capital (Shs)	Permanent shareholder equity in the form of issued and fully paid up shares plus all disclosed reserves less goodwill or any intangible asset
Supplementary Capital (Shs)	General provisions which are held against future and current unidentified losses that are freely available to meet losses which subsequently materialize and revaluation reserves on the bank premises and any other form of capital.
Total Capital(Shs)	The sum of core capital and supplementary capital
Total Capital Adequacy (%)	Total Capital divided by the sum of total risk weighted assets and total risk weighted contingent claims

Financial Highlights

Performance Against Financial Objectives 2015

Financial Data	Objective	Achieved 2015	Achieved 2014
Return on Equity (ROE)	6.9%	12.8%	3.9%
Return on Assets (ROA)	1.6%	2.4%	0.7%
Cost to income ratio	85.0%	80.2%	93.9%
Unfunded income ratio	13.5%	9.3%	9.4%
Non -performing loans ratio	5.0%	6.4%	6.7%
Core capital RWA	24.2%	21.3%	17.7%
Non Financial Data			
Number of depositors	160,453	149,678	138,300
Number of ATMs	29	26	24
Number of branches	19	19	18

Extracts From The Financial Statements

Financial Data	2015 Ushs'000	2014 Ushs'000	Growth %
Total assets	618,528,703	596,770,325	3.6%
Shareholders' funds	120,440,868	108,312,231	11.2%
Total deposits	306,005,781	282,979,754	8.1%
Net loans and advances	367,853,422	397,654,178	-7.5%
Total income	100,468,648	91,529,767	9.8%
Total expenses	80,581,082	85,904,286	-6.2%
Profit before tax	19,887,566	5,625,481	253.5%
Profit after tax	14,682,679	4,256,738	244.9%
Key Performance ratios			
Cost to income ratio	80.2%	93.9%	-14.6%
After tax return on assets	2.4%	0.7%	242.9%
After tax return on equity	12.8%	4.0%	219.2%
Capital adequacy ratio (Tier1)	21.3%	17.6%	21.0%
Non -performing loans ratio	6.4%	10.7%	-40.2%

Operational and Financial Review

The following are the highlights of the Bank's financial position and operating results for the year 2015

Statement of Comprehensive Income Analysis

The Bank's total income is comprised of interest income, income from commissions and fees and other non-operating income. The total income increased from Ushs91.5billion in 2014 to Ushs 100.5 billion in 2015.

Net Interest Income

Net interest income which is the margin between interest income and interest expense, remained the major source of income for the Bank. Net interest income increased from Ushs 51.7 billion to Ushs 58.1 billion, representing a 12.4% annual growth driven by the growth in investment in securities. Net interest income for 2015 represented 58% (2014: 56%) of operating income.

Fees and Commission Income

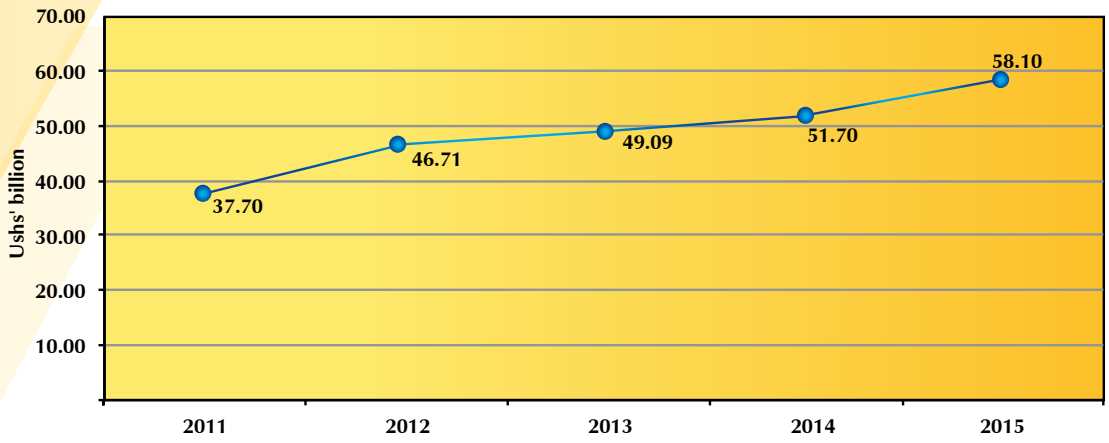
The Bank's non-interest income arises from trading income, trade financing activities, transactional fees, fund transfers and revaluation of currency positions and exchange income on foreign transactions.

The Bank's non- interest income grew by 7.0% from Ushs 8.94 billion in 2014 to Ushs 9.57 billion in 2015. This growth was driven by higher transaction volumes arising from increased customer base.

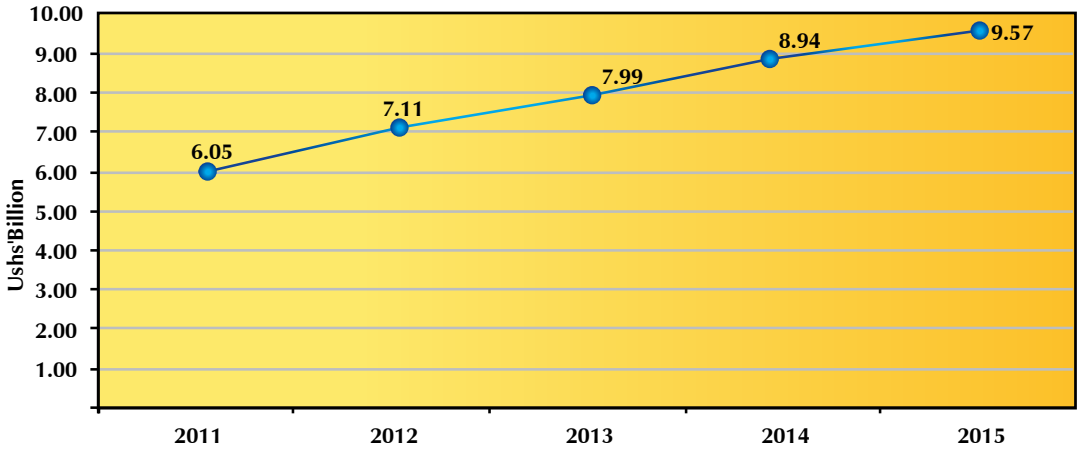
Operating Expenses

Total operating expenses for the year were Ushs 45.5 billion, an increase 7.3% when compared to 2014. Operating expenses mainly comprise of the employee benefits and related costs, depreciation and amortization charges, premises costs, communication costs, marketing and advertising costs, insurance, security and office consumables.

Net interest income



Fees and Commission income



Employee benefits and related costs were 4.9% higher than 2014 while other operating costs increased by 10.2% from 2014. These increases were due to the depreciating shilling and inflationary pressures during the period.

Balance Sheet Analysis

The Bank's total assets during the year 2013 increased by 3.6% due to growth in investments in securities.

Net loans and advances accounted for 59.5% of the total assets and close at Ushs 368billion.

Customer deposits which consist of time deposits, current and savings accounts make up the main source of funding for the Bank. The deposits grew by 8.1% to Ushs 306 billion up from Ushs 283 billion.

Funding Mix

Customer deposits continued to be the major funding source for the year representing 49% of the balance sheet compared to 47% in 2014.

Shareholders' equity, which comprises share capital, retained earnings and reserves financed 19% (2014: 18%) of the balance sheet. The growth of shareholder equity is a direct result of earnings. The earnings of the year have been partly distributed as dividends to shareholders, while the rest was ploughed back into the business to enable growth in the Bank's asset base.

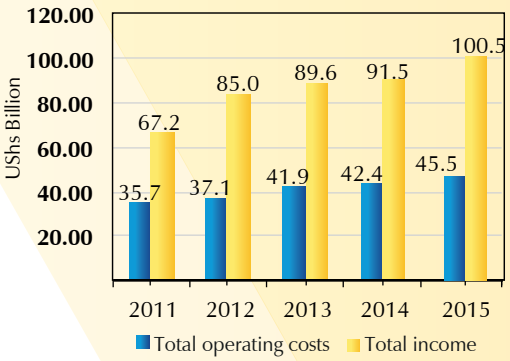
Capital Adequacy

The Bank monitors its capital adequacy using ratios established by the Bank for International Settlements (BIS) and approved by the Bank of Uganda, as the regulator. The ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets and off balance sheet commitments at a weighted amount to reflect their relative risk. At 31 December 2015, the Bank had a regulatory total capital base of 23.5% (2014: 19.8%) of risk weighted assets, with primary capital at 21.3% (2014: 17.6%). The capital adequacy remains above the stipulated regulatory minimums of 12% and 8% for the total capital and primary capital respectively

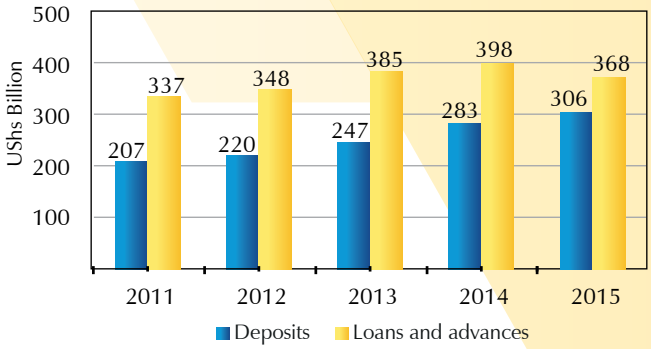
Cash Flow Analysis

During the year under review, the Bank generated Ushs 35 billion from operations compared to Ushs 7 billion. The cash generated was used to fund capital investments and financing obligations. The net cash available increased by Ushs 8 billion to Ushs 67billion up from Ushs 59 billion in 2014.

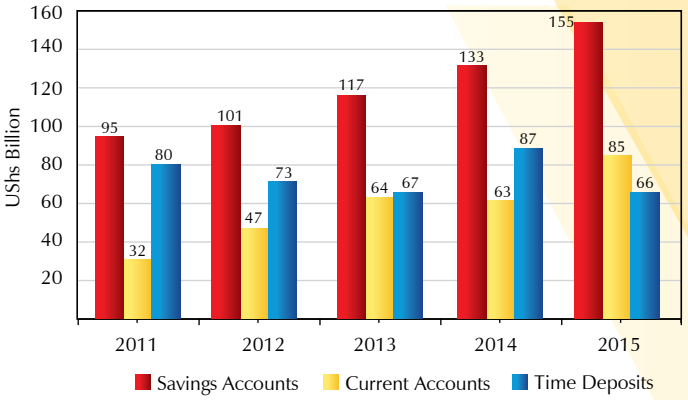
Total Income And Total Operating Expenses



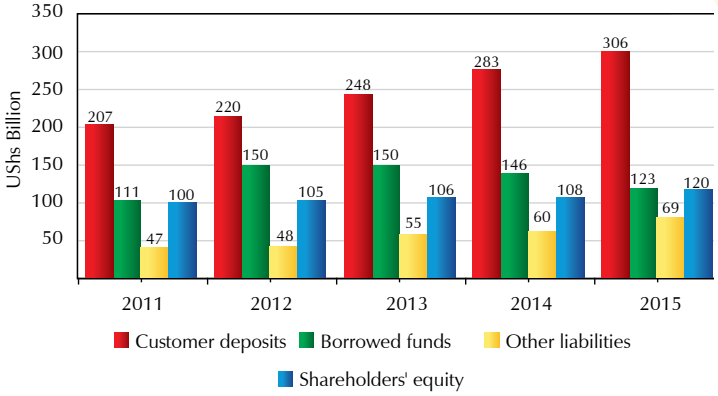
Loans and advances and deposits



Deposit Mix



Funding Mix 2015



Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2015, which disclose the state of financial affairs of Housing Finance Bank Limited (the Bank).

1. Principal Activities

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

2. Results

The results for the year are set out on page 30.

3. Capital Adequacy

The Bank monitors the adequacy of its capital using ratios established by Bank of Uganda and the Bank for International Settlements (BIS). The Bank's capital adequacy computations are reflected in note 29. As at 31 December 2015 the capital ratios were as follows:

	2015	2014
Tier I Capital (Ushs'000)	92,468,085	80,344,862
Tier II Capital (Ushs'000)	101,963,986	90,311,474
Total risk weighted assets (Ushs'000)	434,271,549	455,349,558
Tier I Capital ratio	21.29%	17.64%
Tier II Capital ratio	23.48%	19.83%

4. Dividends

The directors have proposed a dividend of Ushs 8,809 million for the year ended 31 December 2015 (2014: Ushs 2,554 million).

5. Directors

The directors who served during the year and up to the date of this report are shown on page 4-6.

6. Auditors

The auditors, Ernst & Young were first appointed in 2012 and their 4-year term of office expires in 2015 in accordance with the Financial Institutions Act 2004. New auditors are to be appointed in accordance with the FIA 2004 and section 168 (2) of the Companies Act to replace the retiring auditors.

7. Approval Of Financial Statements

The financial statements were approved by the Board of Directors of Housing Finance Bank Limited on 18th April 2016

By order of the Board



Ms. Anne Abeja
Company Secretary

Directors' Responsibility for Financial Reporting

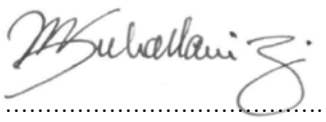
The Companies Act of Uganda, 2012 and the Ugandan Financial Institutions Act, 2004 require the directors of the Bank to prepare financial statements for each financial year, which give a true and fair view of the state of financial affairs of the Bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the Bank keeps proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors are ultimately responsible for the system of internal control. The directors delegate the responsibility for the system of internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safe guard, verify and maintain accountability of the Bank's assets. Appropriate accounting policies supported by reasonable and prudent judgements and estimates, are applied on a consistent basis and using the going concern basis. These systems and controls include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

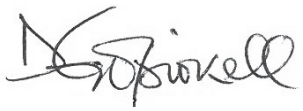
The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda, 2012 and the Ugandan 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 operating results. The directors further accept the responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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.

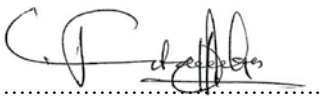
The financial statements were approved by the Board of Directors on April 18, 2016 and signed on its behalf by:



Mr. Keith Muhakanizi
Chairman



Mr. David G. Opiokello
Director



Mr. Mathias Katamba
Managing Director



Ms. Anne Abeja
Secretary

Chairman's Statement



Mr. Keith Muhakanizi
Chairman, Board of Directors

I am pleased to present to you our Annual Report I am delighted to share with you the Annual report and financial statements for the year ended 31st December 2015.

In the year 2015, major strides were made towards improving the overall performance of the Bank after embarking on a journey that started with the implementation of the new strategic plan. This has enabled the Bank to deliver double digit returns with profits at 14.7 billion with an improved risk rating from the regulator and the economic outlook for the coming year is conducive for the Bank to further capitalize on this growth.

Allow me to share with you a highlight of this journey which the Managing Director will further expound on in his report.

Operating Context

Overall, global economic growth has been challenging particularly for developing countries that have been hit the hardest by the protracted decline in commodity prices which most of them rely on for exports. In addition, climatic changes have had a disruptive effect on agricultural cycles hence feeding inflationary tendencies. Furthermore, Western Economies have begun to strengthen and this has exerted depreciation pressures on the currencies of developing countries.

In our context, headline inflation increased by 7.5% from 1.8% in December 2014 to 9.3% in 2015 however core inflation increased at a lower pace of 4.7% from 2.7% in December 2014 to 7.4% in December 2015. Generally, inflation remained within the single digit region throughout the year and the Uganda Shilling which had depreciated by 33% against the U.S Dollar at one point in the year began to appreciate again and closed the gap to 22% from 2,773 Shillings in December 2014 to 3,377 Shillings in December 2015. All this was due to the concerted monetary and fiscal policies implemented by the Central Bank and Government during the year and as a result, the Country's rating was upgraded by Fitch Ratings from "B" to "B+" and the outlook on the economy is positive.

Governance and the Directorate

Let me extend my appreciation to the Board of Directors for successfully steering the Bank in the face of a tough operating environment. The Directorate of the Bank was maintained and capacity was further strengthened by tailor made trainings that were held during the year for the Directors that improved the oversight of the Board.

In exercise of its roles, the Board periodically reviewed the financial performance of the Bank in addition to reviewing the policies and procedures of the Bank which culminated in the implementation of a new Credit Policy, an updated Risk Management Framework and Anti Money Laundering Policy and a new Performance Management Framework to mention a few.

The Board will continue to support Management in the implementation of the strategic plan and will also continue to engage with stakeholders to ensure that the Bank achieves its objectives, vision and mission.

Appreciation

Our utmost appreciation goes to our Customers who have committed to us another year to serve them and to our Shareholders who have committed the resources needed and have given the Bank its mandate.

I thank you our stakeholders for your fruitful engagement that has delivered a remarkable year for the Bank.

Thank You



Keith Muhakanizi
Chairman Board of Directors

Remarks from the Managing Director



Mr. Mathias Katamba
Managing Director

Global Economy

Global economic prospects continued to decline with economic growth forecast at 3.1% for 2015 which is 0.3% lower than the 3.4% achieved in 2014. The decline was mainly attributed to the slowdown in emerging markets and developing countries as a result of increased market volatility and declining commodity prices. Consequently, this decline has affected institutions that were riding the commodities wave in developing countries and as such we have seen some multinationals rethink their strategy for Africa. Given that Africa is still one of the fastest growing regions in the world, it will continue to present a good business opportunity however; these changes in the economic landscape and the anticipated tightening of monetary policy in the Western Economies presents a new set of downside risks for near term growth prospects. As a result, growth in developing economies is projected to improve by only 0.3% in 2016 from 4.0% in 2015 to 4.3% in 2016 while global growth will also improve just slightly by 0.3% in 2016 from 3.1% in 2015 to 3.4% in 2016.

Domestic Economy

On the domestic front, headline inflation increased by 7.5% from 1.8% in December 2014 to 9.3% in 2015 while core inflation increased at a slower rate of 4.7% from 2.7% in December 2014 to 7.4% in December 2015. The increase in inflation during the year was attributed to weather patterns i.e. elnino that adversely affected agriculture. On the exchange rate side, the Uganda Shilling depreciated by 22% or 604 Shillings during the year from 2,773 Shillings in December 2014 to 3,377 Shillings in December 2015. The depreciation of the Shilling was due to the continued strengthening of Western currencies particularly the U.S Dollar as economic activity gains momentum in Western Economies. However, the Central Bank and Government had anticipated these events and responded by gradually moving up the CBR through the year by 6 percentage points from 11% in December 2014 to 17% by the end of December 2015. As a result, of these monetary and fiscal policy actions, the Shilling which had depreciated by 33% by September 2015 began to reverse this trend and strengthened in value against the U.S Dollar gaining 11 percentage points between September and December 2015 closing the year with a less depreciated position of 22%.

Banking Industry

The year 2015 saw increased scrutiny on the sector across the region following the collapse of a bank in Kenya that also had a subsidiary in Uganda and the after effects of that continued to affect the sector especially in Kenya. While the impact has been rather muted in Uganda, we expect to see increased vigilance in the sector locally particularly additional scrutiny on the systemically important Banks.

Highlights for 2015

During 2015 the Bank's focus was on the theme, "Innovation for Efficient Service Delivery." The Bank was able to achieve the following key milestones as a result of the strategic focus on service delivery. (1) Turn around in financial performance, (2) Credit process optimization with a reduction in impairments, (3) Improved Bank of Uganda rating from Marginal to Fair, (4) Introduction of Mobile banking, (5) A new branch in Mukono and three new ATMs in Naalya, Lubowa and Entebbe, (6) Introduction of a Customer Relationship Management Framework (7) Introduction of a new performance management framework, (8) Staff capacity development through tailored training and exposure, (9) Implementation of a sustained change management program, (10) Stakeholder engagement through the Uganda Housing Finance Conference.

The Bank also received recognition for its work during the year from the Uganda Tourism Board who awarded special recognition to the Bank for supporting tourism through the artwork in the Bank's Pearl Lounge. In

addition, the Public Relations Association of Uganda awarded the Bank's Uganda Housing Finance Conference as the best event for 2015 and the Global Banking and Finance Review awarded the Bank for being the best housing finance bank in Uganda.

Financial Performance

Despite the challenging economic environment that prevailed during the year, the Bank was able to grow profitability by 154% from 5.78 billion to 14.68 billion with a return on equity of 12%. Total operating expenditure reduced by 5% or 2.8 billion Shillings from 57.8 billion to 54.9 billion due to a reduction in impairment expenses as a result of a project that was undertaken to strengthen and streamline the credit underwriting process of the Bank during the year.

Customer deposits grew by 8% or 23 billion from 283 billion to 306 billion while net loans reduced by 7% or 30 billion from 398 billion to 368 billion due to the high interest rate environment that dampened the demand for long term mortgage financing which is the core business of the Bank. However, the Bank was able to offset this reduction in net loans with a corresponding increase in Treasury investments by 40% or 32 billion from 82 billion to 114 billion and an increase in placements by 61% or 19 billion from 31 billion to 50 billion. As a result, the Bank's total assets grew by 4% or 21 billion from 596 billion to 618 billion.

Risk & Compliance Management

During the year, the overall risk rating of the Bank was upgraded by the Central Bank from Marginal to Fair on account of improvement in asset quality, earnings and liquidity. In the coming period, the Bank will continue to work with the Shareholders to increase the capital base, in order to support the growth of the Bank in the planned period.

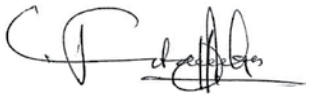
Outlook for 2016

As we look to the year ahead, the forecast for our economy looks bright. The heightened depreciation pressures on the Shilling experienced in 2015 have abated and we foresee a reduction in the CBR rate over the coming period. The strategic theme and focus of the Bank for 2016 will be to "Grow a Sustainable Business." This is in light of the Bank having put in place the necessary systems to enable business growth which will be driven through continuous human capital development, increasing revenue streams and growing the traditional mortgage business in addition to introducing solutions for the low and middle income people. We shall continue to pursue our mission which is, "To provide efficient, innovative, convenient and market-led, financial services especially housing to all, so as to maximize stakeholder value."

Appreciation

As we look back on the achievements of 2015, we want to thank our Shareholders, the Board, Customers and Staff whose dedication, commitment and support continued to make it possible for the Bank to move forward on the journey to building a successful company that consistently maximizes stakeholder value.

Thank You



Mathias Katamba
Chairman Board of Directors

Awards and Recognition

Best Housing Finance Bank in Uganda Award

The Bank won the best Housing Finance Bank in Uganda from the global Banking and Finance Review. The Global Banking and Finance review is an online portal which has evolved from the growing need to have a more balanced view for informative and independent news for the global banking and Finance review. These awards were created to recognise companies of all sizes that are prominent in particular areas of expertise and excellence within the global financial community. They are known throughout the global banking and financial community. They reflect the innovation achievement, strategy, progressive and inspirational changes taking place within the financial sector.

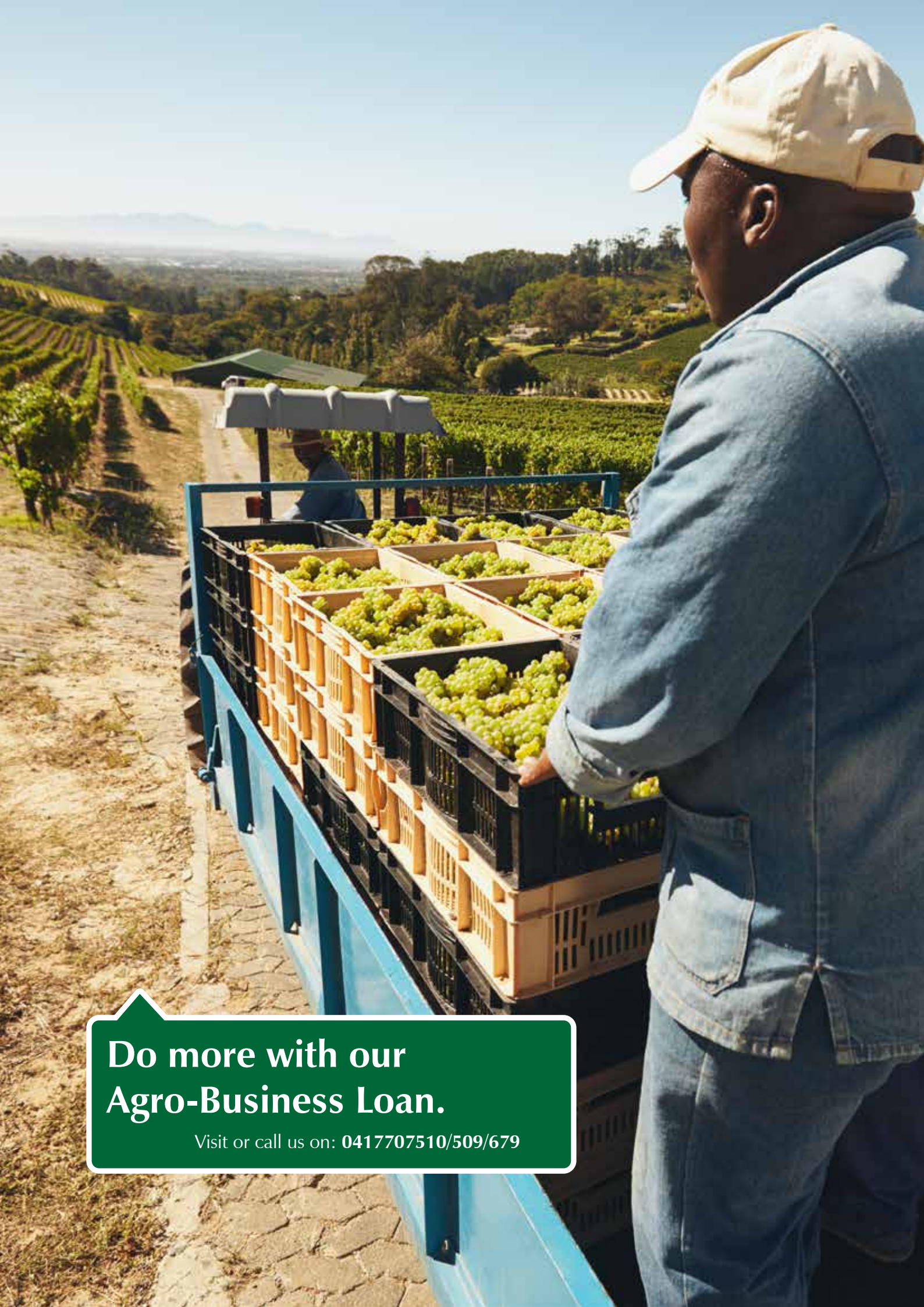


The Pearl of Africa Tourism Expo and Excellence Awards 2015

The Bank won an award during the Pearl of Africa Tourism Expo and Excellence Awards that took place on November 20th, 2015, in the category of special recognition for our contribution towards Tourism. The Bank has an executive Banking services called Pearl Banking. This concept suits well with the event .



The Bank was recognised during the 5th PRAU (Public Relations Association of Uganda) Excellence Awards that took place on 19th November, 2015. The award was dedicated to the best event of the year where Housing Finance Bank organised the first ever Housing Conference which was well publicised and organised.


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Annual Financial Statements 2015

Independent Auditor's Report to the members of Housing Finance Bank Ltd

Report On The Financial Statements

We have audited the financial statements of Housing Finance Bank Limited, which comprise the statement of financial position as 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 as set on pages 30 to 83.

Directors' Responsibility For The Financial Statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda, 2012 and the Ugandan 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 the audit to obtain reasonable assurance whether 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 judgment, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Housing Finance Bank Limited as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012 and the Ugandan Financial Institutions Act, 2004.

Report On Other Legal Requirements

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

(i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

(ii) in our opinion, proper books of account have been kept by the Bank so far as appears from our examination of those books; and

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

Certified Public Accountants
KAMPALA

22 April 2016

Housing Finance Bank Limited Corporate Information For The Year Ended 31 December 2015

Directors

Mr. Keith Muhakanizi - Chairman
Mr. David G. Opiokello - Director
Ms. Geraldine Ssali - Director
Ms. Sarah Walusimbi - Director
Mr. Patrick Ayota - Director
Mr. Frank M. Katusiime - Director
Mr.Micheal K Mugabi - Executive Director
Mr. Mathias Katamba - Managing Director

Registered Office

Housing Finance Bank Limited
Investment House
Plot 4 Wampewo Avenue, Kololo
P. O. Box 1539
Kampala

Secretary

Ms. Anne Abeja
Housing Finance Bank Limited
P. O. Box 1539
Kampala

Bank's Solicitors

Nangwala, Rezida & Co. Advocates& Legal Consultants
Suite No. 5 & 6, 2nd Floor Block B
Plot No 7/9, Buganda Road
P. O. Box 10304
Kampala

Auditors

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

Main Correspondent Banks

Deutche Bank Trust Company Americas
60 Wall Street
New York NY10005
USA

Standard Chartered New York
1095 Avenue of Americas
New York, NY 10036
USA

Standard Chartered Bank London
L1 Basinghall Avenue, London
EC2 V 5DD Great London
United Kingdom

Standard Chartered Bank Germany
Franklin Strasse
46-48 Frankfurt am Main
Germany

Standard Chartered Bank, Kenya
48, Chiromo Road, Westlands
P. O. Box 30003 00100
Nairobi, Kenya

Standard Bank of South Africa
25 Sauer Street
6th Floor
Johannesburg
South Africa

Standard Chartered Bank, Tokyo Japan
21st Floor Sanno Park tower
2-11-11- Nagatacho, Chiyoda-ku
100-6155 Japan

Financial Statements

Statement Of Comprehensive Income
For the year ended 31 December 2015

	Note	2015 Ushs '000	2014 Ushs '000
Interest income	3 (a)	83,234,279	79,377,147
Interest expense	3 (b)	(25,175,260)	(27,717,922)
Net interest income		**58,059,019**	**51,659,225**
Fees and commission income	4 (a)	9,566,495	8,937,564
Fees and commission expense	4 (b)	(470,363)	(412,586)
Net fees and commission income		**9,096,132**	**8,524,978**
Net trading income	5	1,665,644	554,691
Other income	6	6,002,230	2,660,365
Operating income		**74,823,025**	**63,399,259**
Employee benefits and costs	7	(24,267,864)	(23,122,966)
Other operating expenses	8	(14,925,308)	(14,075,620)
Impairment losses on loans and advances	14 (c)	(9,886,220)	(15,776,725)
Depreciation and amortisation	16,17 &18	(4,938,467)	(4,798,467)
Provision for litigation and damages	25 (c)	(917,600)	-
Total operating expenses		**(54,935,459)**	**(57,773,778)**
Profit before tax		19,887,566	5,625,481
Income tax expense	10(a)	(5,204,887)	(1,368,743)
Profit for the year		**14,682,679**	**4,256,738**
Other comprehensive income			
Revaluation gain on land and building		-	2,181,667
Income tax effects		-	(654,500)
		-	1,527,167
Total comprehensive income for the year, net of tax		**14,682,679**	**5,783,905**

Statement Of Financial Position
As at 31 December 2015

	Note	2015 Ushs'000	2014 Ushs'000
Assets			
Cash and balances with Bank of Uganda	11	36,194,634	36,121,001
Government securities - held to maturity	12	113,809,314	81,494,522
Deposits due from other banking institutions	13	50,294,955	31,224,098
Loans and advances to customers	14	367,853,422	397,654,178
Current income tax recoverable	10 (b)	-	774,499
Other assets	15	13,923,812	12,258,208
Finance lease on leasehold land	16	281,080	289,402
Property and equipment	17	29,081,230	29,737,594
Intangible assets	18	4,766,707	6,676,785
Capital work in progress	19	2,323,549	540,038
Total assets		**618,528,703**	**596,770,325**
Liabilities			
Customer deposits	20 (a)	306,005,781	282,979,754
Deposits and balances due to banks	20 (b)	3,001,397	-
Other liabilities	21	14,446,108	13,544,373
Provision for litigation and damages	25 (c)	3,564,587	2,646,987
Agency collection accounts	22	31,646,159	30,892,506
Other borrowed funds	23	122,732,222	145,908,912
Tax payable	10 (b)	208,732	-
Dividends payable	36 (a)	11,314,244	8,760,201
Deferred income tax liability	10 (d)	5,168,605	3,725,361
Total liabilities		**498,087,835**	**488,458,094**
Shareholders' equity			
Share capital	24	61,000,000	61,000,000
Revaluation reserves	34	5,737,398	5,937,516
Retained profits		39,956,960	29,465,605
Regulatory credit risk reserve	35	4,936,902	9,355,067
Proposed dividends	36	8,809,608	2,554,043
Total shareholders' equity		**120,440,868**	**108,312,231**
Total shareholders' equity and liabilities		**618,528,703**	**596,770,325**

The financial statements were approved by the Board of Directors on April 18, 2016 and signed on its behalf by:

Mr. Keith Muhakanizi	**Mr. Mathias Katamba**	**Mr. David G. Opiokello**	**Ms. Anne Abeja**
Chairman	*Managing Director*	*Director*	*Secretary*

Statement Of Changes in Equity
For the year ended 31 December 2015

	Note	Share capital	Revaluation reserve	Retained profits	Proposed dividends	Regulatory credit risk reserve	Total
		Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 1 January 2014		61,000,000	4,555,925	28,488,647	3,871,832	8,483,754	106,400,158
Total comprehensive income for the year		-	1,527,167	4,256,738	-	-	5,783,905
Excess depreciation transfer	34	-	(145,576)	145,576	-	-	-
Dividends payable		-	-	-	(3,871,832)	-	(3,871,832)
Proposed dividends	36	-	-	(2,554,043)	2,554,043	-	-
Transfer to regulatory general credit risk reserve	35	-	-	(87,313)	-	871,313	-
At 31 December 2014		**61,000,000**	**5,937,516**	**29,465,605**	**2,554,043**	**9,355,067**	**108,312,231**
At 1 January 2015		61,000,000	5,937,516	29,465,605	2,554,043	9,355,067	108,312,231
Total comprehensive income for the year		-	-	14,682,680	-	-	14,682,680
Excess depreciation transfer	34	-	(200,118)	200,118	-	-	-
Dividends payable		-	-	-	(2,554,043)	-	(2,554,043)
Proposed dividends	36	-	-	(8,809,608)	8,809,608	-	-
Transfer from regulatory general credit risk reserve	35	-	-	4,418,165	-	(4,418,165)	-
At 31 December 2015		**61,000,000**	**5,737,398**	**39,956,960**	**8,809,608**	**4,936,902**	**120,440,868**

Statement Of Cash Flows
For the year ended 31 December 2015

	Note	2015 Ushs '000	2014 Ushs '000
Net cash flows generated from operating activities	26	**35,496,400**	**6,670,555**
Cash flows from investing activities			
Purchase of property and equipment	17	(1,639,624)	(1,250,288)
Purchase of intangible assets	18	(13,779)	(434,477)
Purchase of capital work in progress	19	(2,517,146)	(526,590)
Proceeds from sale of equipment		-	78,550
Net cash used in investing activities		**(4,170,549)**	**(2,132,805)**
Cash flows from financing activities			
Decrease in other borrowed funds	23	(34,934,345)	(7,952,177)
Foreign exchange movements	23	11,757,655	4,284,645
Net cash used in financing activities		**(23,176,690)**	**(3,667,532)**
Increase in cash and cash equivalents		8,149,161	870,218
Cash and cash equivalents at beginning of the year		59,326,562	58,456,344
Cash and cash equivalents at the end of the year	**27**	**67,475,723**	**59,326,562**

Statement of Cash flows analysis

The bank's cash flow from operating activities increased to Ushs 35.5 billion in 2015 from Ushs 6.6 billion in 2014, reflecting an increase of 438%. This was mainly because of the increase in operating profit before tax and decrease in loans and advances.

Cash flows towards investing activities decreased from Ushs 2.1 billion to Ushs 4.2 billion during the year 2015 as a result of an increase in work in progress.

Cash flows from financing activities increased to Ushs 23.2 billion during the period due to a reduction in loan term borrowing and as a result of loan servicing during the year.

Notes To The Financial Statements

1. Reporting Entity

Housing Finance Bank Limited (the Bank) is a company domiciled in Uganda. The Bank's registered office is at Plot 4 Wampewo Avenue, Kololo. The Bank is primarily involved in the business of commercial banking and the provision of related services and is licensed under the Financial Institutions Act, 2004.

The financial statements for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on April 18, 2016.

2. Basis Of Preparation And Accounting Policies

a) Statement of compliance

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The Bank presents its statement of financial position broadly in order of liquidity.

b) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the valuation of certain property and equipment and financial assets and liabilities which have all been measured at fair value.

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

c) Functional and presentation currency

The financial statements are presented in Uganda shillings (Ushs), rounded to the nearest thousand, unless otherwise indicated.

d) Use of estimates and judgement

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, incomes and expenses. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 28.

2.1 Summary of significant accounting policies

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

a) Revenue recognition

Income is recognised on an accrued basis.

(i) Net interest income

Interest income and interest expense are recognised in profit or loss using the effective interest rate method on an accrual basis. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or

liability. When calculating the effective rate, the Bank estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

(ii) Fees and commission income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commissions expense relate mainly to transaction and service fees, which are expensed as the service are received.

(iii) Net trading income and other income

Net trading and other income comprise gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

b) Financial instruments – initial recognition and subsequent measurement.

(i) Date of recognition

All financial assets and liabilities are initially recognized on the trade date. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics.

The financial instruments held by the Bank include balances with Bank of Uganda, loans and advances, investments in government securities, balances with other banks, deposits and borrowings.

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss in which case the transaction costs are expensed.

(ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets and financial liabilities designated at fair value through profit or loss: Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the effective interest rate (EIR).

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the statement of comprehensive income. If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity, the entire category would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years

Loans and advances to customers and amounts due from banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and advances and amounts due from banks are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income or expense in profit or loss. The losses arising from impairment are recognised in profit or loss.

Debt issued and other borrowed funds: Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities under debt issued and other borrowed funds, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

(iii) Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- the Bank has transferred substantially all the risks and rewards of the asset; or
- the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

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

c) Impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits.

In assessing collective impairment the Bank uses historical trends of the probability of default. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date .Loss rates are regularly benchmarked against the actual loss experience

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment of loans and advances'.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Financial Institutions Act 2004 requirements

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

i) A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Bank of Uganda, as follows:

a) Substandard assets with arrears period between 90 days and 180 days – 20%

b) Doubtful assets with arrears period between 180 days and one year –50%

c) Loss assets with arrears period over one year – 100%

In addition to the arrears period, the Bank must follow subjective criteria in arriving at the classification attributed to the assets.

ii) A general provision of at least 1% of total outstanding credit facilities net of specific provisions and interest in suspense.

Where provisions for impairment of loans and advances in accordance with the Financial Institutions Act 2004 exceed amounts determined in accordance with International Financial Reporting Standards, the excess is taken to the regulatory general credit risk reserve as an appropriation of retained earnings. Otherwise no further accounting entries are made.

d) Off-setting

Financial assets and liabilities are off-set and the amount presented in the statement of financial position when, and only when the Bank has a legal right to offset the amount and item intended either to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions which are in the Bank trading activity.

e) Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

f) Translation of foreign currencies

Transactions in foreign currencies are translated with the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Currency differences arising on translation are recognised in profit or loss.

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

g) Property and equipment

Items of property and equipment are stated at cost or revalued amounts less accumulated depreciation and impairment losses. Cost includes expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net

within "other income" in profit or loss.

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of day-to-day servicing of property, plant and equipment is recognised in profit of loss as incurred.

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful life of each part of an item of property and equipment. The rates of depreciation used are based on the following estimated useful lives:

Buildings	2.5%
Furniture and fittings	12.5%
Computers and related equipment	33.3%
Intangible assets	20.0%
Motor vehicles	25.0%

Assets are depreciated from the date of commissioning. Expenditure on repairs or maintenance of property and equipment incurred to maintain future economic benefits expected from the assets is expensed when incurred. Land is not depreciated. Leasehold improvements incurred during the year are deferred and are amortized on a straight-line basis over the lease period. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is recognised in 'Other operating income' in the statement of comprehensive income in the year the asset is derecognised.

The Bank assesses at each reporting 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 of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. However, increases are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss. Decreases that offset previous increase of the same asset are charged against the revaluation reserve. All other decreases are charged to profit or loss.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

h) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

i) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee.

The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

j) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the income statement.

k) 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.

l) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessee, are classified as finance leases otherwise, operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease. The cost of leasehold land is recorded as finance lease and amortised over the remaining lease term. The obligations associated with the minimum lease payments are all paid off upfront at inception of the lease in accordance with the local laws.

m) Impairment of non-financial assets

The carrying amount of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists the assets recoverable amounts is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

n) Taxation

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax is provided on profit for the year adjusted in accordance with the Income Tax Act. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is provided using the liability method, for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, if the deferred tax 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, it is not accounted for. Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax is recognised as an expense/(income) and included in the statement of comprehensive income, except to the extent that the tax arises from a transaction which is recognised directly in other comprehensive income or equity. In this case the tax is also recognised in other comprehensive income or equity.

Revenue, expenses and assets are recognised net of the amount of value added tax except: where the value added tax incurred on a purchase of assets or rendering of services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of accounts receivables or account payables in the statement of financial position.

o) Post-employment benefits

The Bank's employees are eligible to participate in the Bank's retirement scheme, which is a defined contribution plan. The Bank also contributes to the National Social Security Fund (NSSF). Contributions to the plan and NSSF are charged to the income statement as incurred.

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 profit or loss over the period of the borrowings using the effective interest method.

q) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, restricted balances held with the central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

r) Derivative financial instruments

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

s) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank. The adoption of the standards or interpretations is described below:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements 2010-2012 Cycle
- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures
- Annual Improvements 2011-2013 Cycle
- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt the standards applicable to its financial statements when they become effective. The Bank expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Bank's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the Bank is still assessing the possible impact.

International Financial Reporting Standards and amendments issued but not effective for 31 December 2015 year-end			
Number	**Title**	**Effective date**	**Executive summary**
IFRS 9	Financial Instruments	1-Jan-18	In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Bank plans to adopt and apply the new standard on the required effective date. During 2015, the Bank has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Bank in the future. Overall, the Bank expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Bank expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.
IFRS 15	Revenue from Contracts with Customers	1-Jan-18	IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank plans to adopt and apply the new standard on the required effective date using the full retrospective method. During 2015, the Bank performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Bank is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments. The Bank is still assessing the impact the new standard will have on its revenue.

International Financial Reporting Standards and amendments issued but not effective for 31 December 2015 year-end			
Number	**Title**	**Effective date**	**Executive summary**
IFRS 16	Leases	1-Jan-19	The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. Key features • The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17. • Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. • The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less). • Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. • Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach. The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The Bank plans to adopt and apply the new standard on the required effective date using the full retrospective method.
IAS 1	Disclosure Initiative – Amendments to IAS 1	1-Jan-16	The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify: • The materiality requirements in IAS 1 • That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated • That entities have flexibility as to the order in which they present the notes to financial statements • That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. The Bank plans to adopt and apply the amendments on the required effective date.

The standards issued but not yet effective which the Bank does not expect to have an impact on the financial statements are listed below:

- IAS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements 2012-2014 Cycle
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 34 Interim Financial Reporting
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

3. Interest

		2015 Ushs'000	2014 Ushs'000
a)	**Interest income**		
	Loans and advances to customers	68,882,757	69,391,270
	Government securities	11,905,401	8,257,108
	Inter-bank placements	1,360,472	1,077,121
	Overdrafts	1,085,649	651,648
		83,234,279	**79,377,147**
b)	**Interest expense**		
	Fixed deposits	6,811,092	8,365,827
	Savings accounts	2,581,589	1,847,016
	Term loans	11,433,751	12,304,295
	Interest on managed funds	1,253,745	1,202,292
	Deposit insurance premium	563,311	736,544
	Inter-bank placements	365,200	218,244
	Long term corporate bond	2,166,572	3,043,704
		25,175,260	27,717,922
	Net interest income	**58,059,019**	**51,659,225**

Included in interest income is interest on impaired loans of Ushs 2.119 billion (2014: Ushs 1.863 billion)

4. Fees And Commission

		2015 Ushs'000	2014 Ushs'000
a)	**Fees and commission income**		
	Agency commission	84,383	692,485
	Advances and loan related fees	3,172,833	2,311,081
	Public deposits related fees	6,309,279	5,933,998
		9,566,495	**8,937,564**
b)	**Fees and commission expense**		
	Loan arrangement fees	222,625	260,007
	Bank charges and fees paid	247,738	152,579
		470,363	412,586
	Net fee and commission income	**9,096,132**	**8,524,978**

5. Net Trading Income

	2015 Ushs'000	2014 Ushs'000
Foreign exchange dealing	1,665,644	552,981
Other foreign exchange gains	-	1,710
	1,665,644	**554,691**

Included in foreign exchange dealing income are unrealised losses amounting to Ushs 9.4 million (2014: unrealised gains of Ushs 87 million).

6. Other Income

	2015 Ushs'000	2014 Ushs'000
Bad debts recovered	5,828,956	1,854,034
Grant income	-	26,183
Rental income	-	273,478
Revaluation loss recovery	-	422,347
Other income	173,274	84,323
	6,002,230	**2,660,365**

The revaluation loss recovery relates to the revaluation loss on property that was directly charged to profit or loss during the year 2011.

7. Employee Benefits And Costs

	2015 Ushs '000	2014 Ushs '000
Salaries	16,855,649	16,089,895
Travel allowances	738,598	736,650
Leave allowances	405,696	108,613
Medical	828,354	867,480
NSSF employer contribution	1,799,043	1,789,401
Staff entertainment/welfare	388,899	241,548
Vehicle maintenance and computer allowances	438,811	442,816
Overtime pay	21,506	394,935
Staff training	600,631	376,473
Staff insurance	470,219	408,190
Bank's contribution to staff retirement benefits scheme	1,168,818	1,109,605
Staff gratuity	473,510	503,781
Recruitment costs	78,130	53,579
	24,267,864	**23,122,966**

The average number of persons employed by the Bank at year end was 389 (2014: 411).

8. Other Operating Expenses

	2015 Ushs '000	2014 Ushs '000
Professional services	515,258	427,186
Advertising and marketing	1,544,422	1,610,120
Auditor's remuneration	174,922	124,760
Directors' remuneration and fees	765,372	700,124
Cash shortages and forgeries	433,085	109,819
Communication costs	1,031,300	1,024,116
Insurance costs	541,964	308,459
Transport costs	277,871	348,968
Office costs	7,406,764	7,154,742
Loss on asset disposal/write off	21,949	150,357
Other expenses on bad debts	415,896	504,049
Foreign exchange losses	101,450	192,171
Other administrative costs	1,695,055	1,420,749
	14,925,308	**14,075,620**

9. Profit Before Tax

The following items have been charged in arriving at the profit before tax:

	2015 Ushs '000	2014 Ushs '000
Depreciation (Note 17)	2,858,697	2,905,985
Amortisation of lease hold land (Note 16)	8,322	8,322
Amortisation of intangible assets (note 18)	2,072,609	1,884,160
Auditor's remuneration	174,922	124,760
Directors' emoluments	367,444	370,303
Other director's expenses	397,928	329,821

10. Taxation

a) Income tax expense

Charge for the year	1,383,231	-
Withheld at source as final tax	2,378,412	1,651,422
Deferred income tax (Note 10 (d))	1,443,244	(282,679)
	5,204,887	**1,368,743**

b) Current income tax payable/(recoverable)

At 1 January	(774,499)	(774,499)
Charge for the year	1,383,231	-
Corporation tax paid	(400,000)	-
At 31 December	**208,732**	**(774,499)**

c) The tax on the Bank's profits for the year differs from the theoretical amount that would arise using the basic tax rate of 30% as follows:-

	2015	2014
	Ushs '000	Ushs '000
Profit before tax	19,887,566	5,625,481
Tax calculated at a rate of 30%	5,966,270	1,687,644
Tax effect of:		
Withheld at source as final tax	2,778,409	1,651,422
Tax effect non-deductible items	(3,539,792)	(1,970,323)
	5,204,887	**1,368,743**

d) Deferred income tax liability

Deferred income tax is calculated on all temporary differences under the balance sheet liability method using the principal tax rate of 30% (2014:30%). The deferred income tax liability as at 31 December 2015 is attributed to the following items:-

	At 1 January 2015	Charged to profit or loss	Charged to OCI	At 31 December 2015
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Arising from:				
Accelerated tax depreciation	3,200,014	(266,647)	-	2,933,367
Property revaluations	2,318,043	-	-	2,318,043
Tax losses carried forward	(2,622,624)	2,622,624	-	-
Unrealised exchange gains	26,233	(29,060)	-	(2,827)
Provision for litigation	(794,096)	(275,280)	-	(1,069,376)
Provisions for impaired loans	1,597,791	(608,393)	-	989,398
Net deferred tax liability	3,725,361	1,443,244	-	5,168,605

	At 1 January 2014 Ushs'000	Charged to profit or loss Ushs'000	Charged to OCI Ushs'000	At 31 December 2014 Ushs'000
Arising from:				
Accelerated tax depreciation	3,559,949	(359,935)	-	3,200,014
Property revaluations	1,619,870	-	654,500	2,274,370
Tax losses carried forward	(2,288,572)	(290,379)	-	(2,578,951)
Unrealised exchange gains	-	26,233	-	26,233
Provision for litigation	(794,096)	-	-	(794,096)
Provisions for impaired loans	1,256,389	341,402	-	1,597,791
Net deferred tax liability	**3,353,540**	**(282,679)**	**654,500**	**3,725,361**

11. Cash And Balances With Bank Of Uganda

	2015 Ushs '000	2014 Ushs '000
Cash in hand	16,344,512	14,633,983
Balances with the Bank of Uganda	19,850,122	21,487,018
	36,194,634	**36,121,001**

Balances with Bank of Uganda include the mandatory deposits (minimum cash reserve requirement) which are advised fortnightly by Bank of Uganda in line with the provisions of the Financial Institutions Act 2004. As at 31 December 2015, the mandatory deposits were 8.0% of the total deposits (2014: 8.0% of the total deposits).

12. Government Securities (Held To Maturity)

	2015 Ushs'000	2014 Ushs'000
Treasury bills and other bills		
Maturing within 3 months	17,732,237	8,919,186
Maturing after 3 months and before 1 year	40,119,535	35,884,062
	57,851,772	**44,803,248**
Investment in government bonds		
Maturing within 3 months	1,572,931	8,939,491
Maturing after 3 months and within 3 years	54,384,611	27,751,783
	55,957,542	**36,691,274**
	113,809,314	**81,494,522**

Investments in treasury bills are classified as held to maturity as appropriate at the time of purchase. Government treasury bills are debt securities issued by Bank of Uganda for a term of three months, six months, or one year. Government bonds are debt instruments issued by Bank of Uganda for a term of either two, three, five or ten years. The weighted average effective interest rate on Treasury Bills as at 31 December 2015 was 19.48% (2014: 13.12%). The weighted average effective interest rate on government bonds as at 31 December 2015 was 17.98% (2014:12.24%).

13. Deposits Due From Other Banking Institutions

	2015	2014
	Ushs '000	Ushs '000
Placements with local banks	26,370,696	15,460,533
Balances with local banks	916,951	72,747
Balances with overseas banks	23,007,308	15,690,818
	50,294,955	**31,224,098**
The above amount is analysed as follows:		
Amounts due within 3 months	36,729,396	31,224,098
Amounts due after 3 months and within 1 year	13,565,559	-
	50,294,955	**31,224,098**

The weighted average effective interest rate on amounts due from other banking institutions as at 31 December 2015 was 9.78% (2014: 12.2%).

14. Loans And Advances To Customers

		2015	2014
		Ushs '000	Ushs '000
a)	**Loans and advances at amortised cost**		
	Overdraft	6,214,937	5,302,371
	Mortgage loans to customers	261,928,900	267,838,108
	Unsecured/short-term loans	85,237,349	106,626,655
	Vehicle and asset leasing loans	8,744,002	10,498,878
	Staff loans	21,117,088	20,636,337
	Gross loans and advances	**383,242,276**	**410,902,349**
	Impairment allowance on loans and advances(note 14 (b))	(7,815,122)	(6,392,191)
	Discount on staff loans marked to market	(7,573,732)	(6,855,980)
		367,853,422	**397,654,178**

At 31 December 2015, Ushs 268,954 million (2014: Ushs 307,778 million) of loans and advances to customers are expected to be recovered more than 12 months after the reporting date.

b) Loans and advance to customers at amortised cost

	2015			2014		
	Gross amount	Impairment allowance	Amortised amount	Gross amount	Impairment allowance	Amortised amount
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Overdrafts	6,214,937	(166,444)	6,048,493	5,302,371	(452,882)	4,849,489
Mortgage loans	261,928,900	(2,502,177)	259,426,723	267,838,108	(1,993,565)	265,844,543
Unsecured short-term	85,237,349	(4,710,185)	80,527,164	106,626,655	(3,759,294)	102,867,360
Vehicle and asset leasing	8,744,002	(232,481)	8,511,521	10,498,878	(57,280)	10,441,598
Staff loans	21,117,088	(203,835)	20,913,253	20,636,337	(129,170)	20,507,168
Discount on staff loans	-	-	(7,573,732)	-	-	(6,855,980)
	383,242,276	**(7,815,122)**	**367,853,422**	**410,902,349**	**(6,392,191)**	**397,654,178**

c) Allowance for impairment of loans and advances

The movement in the allowance for impairment in respect of loans and advances to customers during the year was as follows:

	2015	2014
Individual impairment allowances	**Ushs'000**	**Ushs'000**
At 1 January	3,933,767	8,277,515
Charge for the year	9,055,017	18,784,935
Recoveries during the year	(252,072)	(4,187,906)
Written off during the year	(8,463,289)	(18,940,777)
At 31 December	**4,273,423**	**3,933,767**
Collective impairment allowances		
At 1 January	2,458,424	1,278,728
Charge for the year	1,083,275	1,179,696
At 31 December	3,541,699	2,458,424
Total impairment	**7,815,122**	**6,392,191**
Charge to the statement of comprehensive income:		
Individual impairment allowance	9,055,017	18,784,935
Recoveries during the year	(252,072)	(4,187,906)
Collective impairment	1,083,275	1,179,696
Total allowances for impairment	**9,886,220**	**15,776,725**

The weighted average effective interest rate on loans and advances at 31 December 2015 was 19.2% (2014: 17.2%). The aggregate amount of loans as at 31 December 2015 with indicators of impairment amounted to Ushs 24,653 million (2014: Ushs 27,914 million). All loans have been written down to their recoverable amounts.

d) Sector analysis of loans and advances to customers

The economic sector risk concentrations within the customer loan portfolio were as follows:

	2015	2014
	%	%
Building and construction	68%	65%
Other services	32%	35%
	100%	100%

15. Other Assets

	2015	2014
	Ushs '000	**Ushs '000**
Stationery stock	366,905	404,101
Staff advances	132,901	74,226
Discount on staff loans marked to market	7,573,732	6,855,980
Other prepayments	3,898,252	3,027,916
Prepaid arrangement fees on borrowings	629,701	714,277
Other assets	594,071	453,458
Deposits to URA (30% of VAT legal suit amount)	728,250	728,250
	13,923,812	**12,258,208**

16. Finance Lease On Leasehold Land

	2015 Ushs'000	2014 Ushs'000
Cost		
At 1 January and 31 December	342,792	342,792
Accumulated amortisation		
At 1 January	(53,390)	(45,068)
Amortisation charge for the year	(8,322)	(8,322)
At 31 December	(61,712)	(53,390)
Net carrying amount		
At 31 December	**281,080**	**289,402**

At the inception of the lease, the obligation associated with the acquisition was paid upfront and as such, the obligation resulting from the lease would be the minimum lease payments expunged at the beginning of the lease in a single payment. The finance lease of land relates to the cost of acquiring the leasehold land at the following locations;

- Kampala Road Branch at Plot 25, at a cost of Ushs 50 million. The lease for the property on Plot 25, Kampala Road is for a period of 49 years with effect from 01 September 2007 and as at 31 December 2015 the remaining lease period is 40 years.
- Condominium units No. 97, 98, 102,103, 106 and 107 in the Ovino shopping complex, at Kisenyi, in downtown Kampala at a cost of Ushs 293 million. The lease for the Ovino property is for a period of 99 years effective 5 June 2007 and as at 31 December 2015 the remaining lease period is 90 years.

17. Property And Equipment

	Land & buildings Ushs '000	Furniture equipment &computers Ushs'000	Motor vehicles Ushs'000	Total Ushs'000
Cost or valuation				
At 1 January 2014	19,375,403	21,635,841	1,092,378	42,103,622
Revaluation gain	2,604,014	-	-	2,604,014
Disposals/revaluation	(990,667)	-	-	(990,667)
Additions		1,020,392	229,896	1,250,288
Disposals	-	(461,573)	(299,432)	(761,005)
Transfer from WIP (note 19)	-	202,138	-	202,138
At 31 December 2014	**20,988,750**	**22,396,798**	**1,022,842**	**44,408,390**
Additions	-	1,290,012	349,612	1,639,624
Disposals	-	(241,409)	(86,787)	(328,196)
Transfer from WIP (note 19)	-	584,883	-	584,883
At 31 December 2015	**20,988,750**	**24,030,284**	**1,285,667**	**46,304,701**
Depreciation				
At 1 January 2014	678,189	11,916,471	790,516	13,385,176
Charge for the year	340,885	2,435,717	129,383	2,905,985
Disposal/Revaluation	(990,667)	(330,266)	(299,432)	(1,620,365)
At 31 December 2014	28,407	14,021,922	620,467	14,670,796
Charge for the year	360,519	2,333,685	164,493	2,858,697
Disposals/Revaluation	-	(219,235)	(86,787)	(306,022)
At 31 December 2015	**388,926**	**16,136,372**	**698,173**	**17,223,471**
Net carrying amount				
31 December 2015	**20,599,824**	**7,893,912**	**587,494**	**29,081,230**
31 December 2014	**20,960,343**	**8,374,876**	**402,375**	**29,737,594**

Land and buildings were revalued on 12 December 2014 by M/s. Bageine & Company, (Surveyors &valuers), an accredited

independent valuer. The fair value was determined by reference to market-based evidence and was based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. The gain on revaluation was transferred to the revaluation reserve account. The bank's policy is to revalue its land and buildings every 3 years.

The revaluation gain for the year ended 31 December 2014 was distributed as follows:

	2014 Ushs' 000
Other comprehensive income	2,181,667
Revaluation loss recovery	422,347
	2,604,014

The revaluation loss recovery relates to the reversal of a revaluation decrease on property that was directly charged to the profit and loss account in year 2011.

If land and buildings were measured using the cost model the carrying amounts would be Ushs 13.438 billion (2014: Ushs 13.789 billion.)

18. Intangible Assets

	2015 Ushs'000	2014 Ushs'000
Cost		
At 1 January	12,134,006	11,820,686
Additions	13,779	434,477
Reclassification from work in progress	148,752	-
Disposal	(2,621,577)	(121,157)
At 31 December	9,674,960	12,134,006
Amortisation		
At 1 January	(5,457,221)	(3,596,619)
Amortisation for the year	(2,072,609)	(1,884,160)
Disposal /write off	2,621,577	23,558
At 31 December	(4,908,253)	(5,457,221)
Net carrying amount		
At 31 December	**4,766,707**	**6,676,785**

The intangible assets relate to the computer software acquired and used by the Bank. The directors estimate its useful life to be 5 years.

19. Capital Work In Progress

	Land & buildings Ushs '000	Branch refurbishments Ushs'000	Intangible assets Ushs'000	Total Ushs'000
At 1 January 2014	-	210,080	5,506	215,586
Additions	-	370,351	194,307	564,658
Expensed	-	(32,304)	(5,764)	(38,068)
Transfer to property and equipment (note 17)	-	(202,138)	-	(202,138)
At 31 December 2014	**-**	**345,989**	**194,049**	**540,038**
At 1 January 2015	-	345,989	194,049	540,038
Additions	-	495,459	2,183,061	2,678,520
Expensed		-	(161,374)	(161,374)
Transfer to property and equipment (note 17)	-	(584,883)	-	(733,634)
Transfer to intangible assets (note 18)	-	-	(148,752)	-
At 31 December 2015	**-**	**256,565**	**2,066,984**	**2,323,549**

The work in progress related to capital expenditures for civil works for the development of an archive Centre at Munyonyo and on the ATM Switch, Audit software and Cheque point system upgrade.

20(a) Customer Deposits

	2015 Ushs '000	2014 Ushs '000
Savings accounts	154,585,899	133,069,257
Current and demand deposits	85,033,000	63,364,355
Fixed deposit at amortised cost	66,386,882	86,646,142
	306,005,781	**282,979,754**

The weighted average effective interest rate on current/demand deposits, savings deposits and fixed deposits as at 31 December 2015 was 1.7% (2014: 1.4%), 1.0% (2014: 1.0%) and 10.3% (2014: 10.0%) respectively.

20(b) Deposits And Balances Due To Other Banks

	2015 Ushs '000	2014 Ushs '000
Balances due to other banks	**3,001,397**	-

21. Other Liabilities

	Ushs '000	Ushs '000
Deposits by prospective mortgage customers	1,049,488	1,076,504
Tax collected on behalf of URA	2,265,312	1,816,890
Deferred income	4,065,701	4,946,323
Other sundry creditors and accruals	7,065,607	5,704,656
	14,446,108	**13,544,373**

22. Agency Collection Accounts

Pool House Collection Fund (PSHS) (Note 22 (a))	31,420,010	30,577,027
NHCC Collections account (Note 22 (b))	840	11,200
Namuwongo revolving fund (Note 22 (c))	178,222	239,036
Soroti District collection account (Note 22 (d))	30,842	35,790
NSSF Collection account (Note 34.1 (c))	16,245	29,453
	31,646,159	**30,892,506**

22(a) Pool House Collection Fund (PSHS collection account)

	2015	2014
	Ushs '000	Ushs '000
At 1 January	30,577,027	26,531,339
Net collections during the year	3,587,543	4,182,205
Interest paid	1,245,440	1,193,483
Payments made during the year	(3,990,000)	(1,330,000)
Balance as at 31 December	**31,420,010**	**30,577,027**

The Government gave an option to housed civil servants to buy their quarters and appointed Housing Finance Bank Limited as an agent for collecting proceeds from the sale of houses with effect from 23 September 1994. The outstanding mortgage advances under this scheme amounted to Ushs 18,727 million (2014: Ushs 20,644 million). The amount reflected on the statement of financial position represents the amount collected so far and the interest earned thereon. This fund has been used to extend mortgage loans. The interest payable on these funds is 4% per annum on the outstanding balance.

22(b) NHCC Collections Account

	2015	2014
	Ushs '000	Ushs '000
At 1 January	10,302	10,302
Net collections during the year	31,501	61,498
Remittance to NHCC Limited	(40,963)	(60,600)
At 31 December	**840**	**11,200**

National Housing & Construction Company Limited (NHCCL) appointed Housing Finance Bank Limited as an agent for collecting proceeds from the sale of corporation houses for an initial term of five years with effect from 23 May 1995. The outstanding mortgage advances under this scheme amounted to Ushs 19 million (2014: Ushs 49 million). The amount collected is remitted on a monthly basis and the amount reflected on the statement of financial position was payable in January 2016.

22(c) Namuwongo Revolving Fund

	2015	2014
	Ushs '000	Ushs '000
At 1 January	239,036	352,091
Transfers received during the period	164,808	-
Net collections during the year	26,268	52,130
Interest accrued	8,306	8,806
Payments made during the year	(260,196)	(173,991)
At 31 December	**178,222**	**239,036**

The Government of Uganda appointed Housing Finance Bank Limited as its agent for the Namuwongo low cost housing project that was implemented starting in the year 1992. The outstanding mortgage advances under the scheme amounted to Ushs 74 million (2014: Ushs 80 million).The sums reflected in the statement of financial position represent the amounts so far collected from the project beneficiaries as at year-end less any payments made to the Government. The interest payable on the outstanding balance is 4% per annum.

22(d) Soroti District Collection Account

	2015	2014
	Ushs '000	Ushs '000
At 1 January	35,790	5,920
Net collections during the year	81,200	59,773
Payments made during the year	(86,148)	(29,903)
At 31 December	**30,842**	**35,790**

Soroti district local government agreed to sell the district council houses to the sitting tenants. In the year 2006, Housing Finance Bank Limited was ordained with power and authority to execute on its behalf mortgages in respect of the said houses for a period not exceeding 10 years at a flat rate of 8% per annum. In consideration, at the end of each year of the mortgage period the Bank shares with the Local Government the interest realised from each of the said mortgages in the proportion of 50% each. The outstanding mortgage advances under the scheme amounted to Ushs 202 million (2014: Ushs 271 million). The sums reflected represent the amounts so far collected from the project beneficiaries as at year-end less any payments made to the local government. The amount collected is remitted to the local government annually less any considerations payable to the Bank.

23. Other Borrowed Funds

	2015	2014
	Ushs '000	Ushs '000
Non-current portion		
Housing Finance Bank Corporate Bond (Note 23.1)	5,933,694	12,740,200
National Social Security Fund (Note 23.2 (i))	27,464,286	31,499,999
PTA Bank (Note 23.2 (ii))	-	6,022,122
AgenceFrancaise De Development (AFD) (Note 23.3 (i))	11,611,563	13,870,000
European Investment Bank Ushs loan (Note 23.3 (ii))	3,957,095	5,078,493
European Investment Bank USD Loan (Note 23.3 (ii))	1,049,421	1,623,412
African Development Bank Ushs Loan (Note 23.3 (iii))	19,973,710	21,875,000
African Development Bank USD loan (Note 23.3 (iii))	23,646,391	22,538,750
Agribusiness loan Guarantee Company loan (Note 23 (iv))	1,753,615	3,421,053
Agricultural Credit Facility Loan (Note 23 (v))	1,358,762	646,150
	96,748,537	**119,315,179**
Current portion		
Housing Finance Bank Corporate Bond (Note 23.1)	7,194,397	7,546,684
National Social Security Fund (Note 23.2 (i))	4,035,714	3,666,668
PTA Bank (Note 23.2 (ii))	-	1,155,600
AgenceFrancaise De Development (AFD) (Note 23.3 (i))	5,742,783	5,129,923
European Investment Bank (Note 23.3 (ii))	873,868	824,500
European Investment Bank (Note 23.3 (ii))	915,055	669,688
African Development Bank loan (Note 23.3 (iii))	1,562,750	3,002,962
African Development Bank loan (Note 23.3 (iii))	4,294,720	3,908,641
Agribusiness loan Guarantee Company loan (Note 23 (iv))	1,088,490	473,684
Agricultural Credit Facility loan (Note 23 (v))	275,908	215,383
	25,983,685	26,593,733
Total	**122,732,222**	**145,908,912**

23.1 Housing Finance Bank Corporate Bond

	2015 Ushs '000	2014 Ushs '000
At 1 January	20,286,884	27,445,551
Accrued interest for the year	2,166,573	3,043,704
Payments made during the year	(9,325,366)	(10,202,371)
Balance as 31 December	**13,128,091**	**20,286,884**

Housing Finance Bank launched aUshs 30 billion Note Issuance programme on 27 December 2007, which was eventually raised to a gross nominal value of Ushs 35 billion. This corporate bond was listed on the Uganda Securities Exchange (USE) on 17 January 2008. The final tranches worth Ushs 14.9 billion were issued in year 2010. The rate applicable on this bond is a reference rate of 182-day Treasury bill plus a 200 basis points margin. The bond was issued at par to various investors/fund managers in six tranches. The bond has a life of up to ten years. Interest is repayable biannually from the interest commencement date. During the year ended 31 December 2015, interest payments due amounting to Ushs 2,166 million were made (2014: Ushs 3,043 million). Principal is also repayable semi-annually upon expiry of the five-year grace period for a period of five years. This commenced in 2012 and the final payments will be due in 2018. The notes are direct, general, unconditional and unsecured and subordinated obligations of the Bank. The notes rank equally in all respects among themselves as well as with other future direct and general commitments, unsecured and subordinated obligations of the Bank.

23.2 Long term loans

i. **NSSF long term loan**	2015 Ushs '000	2014 Ushs '000
At 1 January	35,166,667	38,833,333
Accrued interest for the year	4,394,839	4,896,506
Payments made during the year	(8,061,506)	(8,563,172)
At 31 December	**31,500,000**	**35,166,667**

On 16th October 2009, the Bank concluded a financing arrangement amounting to Ushs 20 billion with National Social Security Fund for purposes of financing its mortgage business. The loan is for a period of ten years with a grace period of 24 months at an interest rate of 13.5% per annum payable on a quarterly basis. The loan is secured by a debenture charged on the Bank's mortgage book portfolio and a lien on the Bank's government securities, each securing 50% of the loan sum. On 25th February 2011, a second facility worth Ushs 25 billion was concluded. The loan is for a period of fifteen years at an interest rate of 11.5% per annum payable on a quarterly basis. The loan is secured by a first mortgage on the Bank's property comprised in LRV 4085 Folio 14 plot 15, Kampala Road and a debenture on the Bank's performing mortgage book portfolio each securing 50% of the loan sum.

ii. PTA Bank long term loan	2015 Ushs '000	2014 Ushs '000
At 1 January	7,177,722	7,678,797
Interest	536,389	320,758
Repayments during the year	(9,279,548)	(1,569,058)
Amounts due to exchange rate movements	1,565,437	747,225
At 31 December	-	7,177,722

On 16 September 2008, the PTA Bank agreed to finance part of the construction of the headquarters building at Kololo, Wampewo Avenue/Dundas Road in Kampala. The loan approved was USD 4,500,000 and was disbursed only for goods and services approved for the said purpose either directly to the contractors against independent architects and quantity surveyors' certificates for building works or to the contractor against quotations. The amount was fully drawn down in the year 2010. As at 31 December 2015, the loan was fully paid off (2014: USD 2,587,499). Interest was paid at the rate of 3-month LIBOR plus a margin of 4% on the outstanding loan. The loan was payable quarterly after a 2-year grace period. The facility was a 10-year loan and is secured by a first mortgage on Plot Number 1, Dundas Road and Plot Number 4, Wampewo Avenue, Kampala.

23.3 Administered Funds

i. **AgenceFrancaise De Development (AFD)**

	2015 Ushs '000	2014 Ushs '000
At 1 January	18,999,923	21,651,084
Interest	1,120,366	1,158,176
Repayments during the year	(6,799,276)	(5,859,337)
Amounts due to exchange rate movements	4,033,333	2,050,000
At 31 December	**17,354,346**	**18,999,923**

The AgenceFrancaise De Developement (AFD) approved a credit facility of USD 10 million to the Bank for financing mortgage and investments in the housing and construction sector in Uganda. As at 31 December 2015, a principle sum of USD 4,999,999 (2014: USD 6,666,666) was outstanding. Interest is paid at the rate of 3-month LIBOR plus a margin of 5.55% on the outstanding loan. The loan is for a period of 8 years, payable half yearly after a 1-year grace period.

ii. European Investment Bank long term loan

European Investment Bank Uganda Shilling loan	2015 Ushs '000	2014 Ushs '000
At 1 January	5,902,993	6,936,303
Interest	550,319	589,039
Repayments during the year	(1,622,349)	(1,622,349)
At 31 December		
	4,830,963	**5,902,993**

European Investment Bank USD loan	2015 Ushs'000	2014 Ushs '000
At 1 January	2,293,100	2,656,556
Interest	94,134	239,363
Repayments during the year	(909,768)	(860,232)
Amounts due to exchange rate movements	487,010	257,413
At 31 December	**1,964,476**	**2,293,100**

The European Investment Bank (EIB) approved a facility of Euro 40 million for a pool of 5 banks to finance business ventures in Uganda. HFB is among the beneficiary banks and in October 2011, the Bank drew down Euro 1.5 million equivalent in two tranches of USD 550,000 and Ushs 4.5 billion. The USD facility is for a period of 7 years while the Uganda shilling facility is for 10 years. The interest and principal for both facilities is payable bi-annually.

iii. African Development Bank long term loan

African Development Bank Uganda Shilling loan	2015	2014
	Ushs '000	Ushs '000
At 1 January	24,877,962	26,676,998
Interest	3,123,911	2,178,582
Repayments	(6,465,413)	(3,977,618)
At 31 December	**21,536,460**	**24,877,962**
African Development Bank USD loan		
At 1 January	26,447,391	12,855,959
Drawn down during the year	-	13,870,000
Interest	1,200,556	2,448,229
Amounts due to exchange rate movements	5,671,875	1,230,007
Repayments	(5,378,711)	(3,956,804)
At 31 December	**27,941,111**	**26,447,391**

The African Development Bank (ADB) approved a facility of USD 20 million for the Bank, of which 75% is in Uganda shillings (Ushs 37.5 million) and 25% US dollars (USD 5 million). The facility is for a period of ten years with a grace period of two years and payable semi-annually.

iv. Agribusiness Loan Guarantee Company Ltd long term loan

	2015	2014
	Ushs '000	Ushs '000
At 1 January	3,894,737	4,842,105
Interest	437,184	565,520
Repayments	(1,489,816)	(1,512,888)
At 31 December	**2,842,105**	**3,894,737**

The Agribusiness Loan Guarantee Company Limited (ALGC) approved a term loan facility of Ushs 5 billion to finance on lending to the agribusiness projects. The facility is for a period of 5 years with a grace period of six months and is payable quarterly.

v. Agricultural Credit facility (ACF) loan

	2015	2014
	Ushs '000	Ushs '000
At 1 January	861,533	21,200
Drawn dawn during the year	1,267,080	982,528
Repayments	(493,942)	(142,195)
At 31 December	**1,634,671**	**861,533**

On 13 October 2009, the Government of Uganda (GOU) set up an Agricultural Credit Facility (ACF) for purpose of supporting agricultural expansion and modernization in partnership with commercial banks, Uganda Development Bank and other participating financial institutions and Housing Finance Bank is one of the beneficiaries banks. The resources of the ACF are on lent by Bank of Uganda on behalf of the GOU. GOU contributes 50% of the capital value of the loans made to eligible beneficiaries. The contribution by the GOU is at no interest and is for a duration of not exceeding 8 years, The loans drawn under the ACF are collaterised by way of promissory notes in favor of Bank of Uganda covering 50% of the loan, principal repayments are made in equal half yearly installments every June and December.

24. Share Capital

	2015 Ushs'000	2014 Ushs'000
Authorised ordinary shares	61,000,040	61,000,040
Authorised, issued and fully paid (6,100,000 shares @ Ushs 10,000 each)	61,000,000	61,000,000

The total authorised number of ordinary shares is 6,100,004 (2014: 6,100,004) with a par value of Ushs 10,000 per share. The holders of paid up ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at the Annual General Meeting of the Bank. There are no potentially dilutive instruments outstanding at 31 December 2015 (Dec 2014: Nil).

25. Off Balance Sheet Financial Instruments, Contingent Liabilities And Commitments

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

	2015 Ushs '000	2014 Ushs '000
Contingent liabilities:		
Letters of credit	465,626	526,283
Guarantees	1,859,738	463,808
Performance bond	80,331	1,503,023
	2,405,695	2,493,114
Commitments:		
Other commitments to lend	5,069,596	4,850,818
Total commitments and contingent liabilities	**7,475,291**	**7,343,932**

Guarantees are generally written by the Bank to support performance by customers to third parties. The majority will only be required to meet these obligations in the event of the customer default.

Commitments on advances relate to credit facilities approved but not yet disbursed as at the period end.

b) Currency sales and purchases

	2015 Ushs '000	2014 Ushs '000
Spot purchases	2,992,600	4,487,300
Spot sales	7,099,500	1,390,000

c) Provision for litigation and damages

	2015 Ushs '000	2014 Ushs '000
At 1 January	2,646,987	2,646,987
Additions during the period	917,600	-
At 31 December	3,564,587	2,646,987

Housing Finance Bank Vs Borrowers:

The Bank is a litigant in various cases for breach of contract arising in the normal course of business amounting to Ushs 25,787 million (2014: Ushs 19,092 million). The directors are of the view that the Bank has a high chance of success against the plaintiffs and none of the cases individually or in aggregate would have a significant impact on the Bank's operations. The directors are confident that the Bank shall receive favorable ruling from the outstanding cases.

Housing Finance Bank Vs Uganda Revenue Authority:

Uganda Revenue Authority (URA) made a claim on 15 March 2005 in respect of the Value Added Tax assessment of Ushs 2,427 million on the sale of the pool houses. In 2008, the Tax Appeals Tribunal (TAT) ruled in favour of Housing Finance Bank Limited and URA appealed to the High Court. On 17 September 2010, the High Court ruled in favour of URA. The Bank was not satisfied with the ruling and appealed to the Court of Appeal. The Bank made 100% provision of Ushs 2,427 million for the case.

26. Cash Generated From Operations

Operating activities	**Note**	**2015 Ushs'000**	**2014 Ushs'000**
Profit before tax		19,887,566	5,625,481
Adjustments for:			
Depreciation	17	2,858,697	2,905,985
Amortisation of intangible assets	18	2,072,609	1,884,160
Amortisation of lease hold land	16	8,322	8,322
Loss on disposal of fixed assets	8	21,949	150,357
Gain on asset revaluation	6	-	(422,347)
		24,849,143	10,151,958
Decrease/(increase) in restricted cash and bank balances		1,123,964	(5,315,917)
Increase in treasury bills maturing after of 3 months		(4,235,473)	(23,821,515)
Increase in deposits due from banking institutions maturing after 3 months		(13,565,559)	-
(Increase)/decrease in investment in bonds maturing after 3 months		(26,632,828)	2,518,312
Decrease/(increase) in loans & advances to customers		29,800,756	(12,163,031)
(Increase)/decrease in other assets		(1,665,604)	1,119,718
Increase in customer deposits		23,026,027	35,049,100
Increase in deposits due to other banks		3,001,397	-
Increase/(decrease) in other liabilities		1,819,333	(2,683,426)
Increase in agency collection accounts		753,653	3,466,778
		38,274,809	8,321,977
Tax paid		(2,778,409)	(1,651,422)
Net cash flows generated from operating activities		**35,496,400**	**6,670,555**

27. Components Of Cash And Cash Equivalents As Shown In The Cash Flow Statement

	Note	**2015 Ushs'000**	**2014 Ushs'000**
Unrestricted cash in hand		11,441,159	10,243,787
Treasury bills and bonds due within 3 months	12	19,305,168	17,858,677
Deposits and balances due from banking institutions within 3 months	13	36,729,396	31,224,098
		67,475,723	**59,326,562**

28. Use Of Estimates And Judgement

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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 Bank regularly reviews its assets and makes judgements in determining whether an impairment loss should be recognised in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments 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 group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Details of loans and advance and the related impairment losses are in note 14

b) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

c) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. The directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

29. Financial Risk Management

a) Framework

Introduction and overview

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risk such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk Committee of the Board

The risk committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Senior Management

Each business unit head is responsible for ensuring compliance with operational guidelines, safeguarding the Bank against losses and taking corrective action within their business unit. Tightly managed procedures allow each employee to understand their role in the risk management process.

Risk Department

The Risk Department is responsible for implementing and maintaining risk related procedure to ensure an independent control process. The Risk Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank including monitoring the risk exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures the complete capture of the risks in risk measurement and reporting systems.

Assets and liabilities management committee (ALCO)

Asset and Liability Management Committee of the Board is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank. This is done through the Investment and Treasury Departments.

Internal Audit

Risk management processes throughout the Bank are audited periodically by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses. The Bank runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur. Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Risk Committee of the Board receives a comprehensive risk report quarterly which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses different instruments to manage exposures resulting from changes in interest rate, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

b) Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. Credit risk is also managed through comprehensive governance and management processes regarding credit risk activities. The Board of Directors exercise oversight over all credit activities by approving the Bank's credit policy. The Board delegates credit risk taking authority to the Managing Director who is directly accountable to the Board on all credit risk taking activities. This promotes effective credit governance through:

I. Prudent credit granting and credit management through the Bank's credit policy governing the philosophy and conduct of credit granting activities;
II. reviewing of portfolio trends, credit provisioning and write-offs; and
III. a well-developed limit-setting and monitoring process of portfolio exposures and trends.

Credit granting process involves use of skilled and qualified professionals, clear delegation of decision-making authority and credit decisions based on size, level of risk, borrower, credit worthiness, available collateral and transactions consistent with the Bank's strategic objectives.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, regular review on account and portfolio basis, reporting to the credit committee senior management committee and the Board of Directors and a regular review of management processes to ensure established policies are followed.

Impaired loans and advances

Impaired loans and advances are those for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s).These loans are graded in accordance with the Bank's internal credit risk grading system.

Impairment assessment and allowance

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in it advance portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and the second one is in respect of losses that have been incurred but have not been identified in relation to the advances portfolio that is not specifically impaired.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances required more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgage and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account any impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Exposure to credit risk

The table below sets out the information about the credit quality of the Bank's loans and advances and the allowance for impairment /loss held by the bank against those assets.

	2015 Ushs '000	2014 Ushs '000
Carrying amount	367,853,422	397,654,178
Individually impaired		
Grade 5 (Impaired - Loss)	2,124,706	2,393,078
Grade 4 (Impaired - Doubtful)	5,277,289	6,557,434
Grade 3 (Impaired - Sub-standard)	12,053,588	9,191,417
	19,455,583	18,141,929
Allowance for impairment	(4,273,423)	(3,933,767)
Carrying amount	15,182,160	14,208,162
Collectively impaired		
Grade 2- Watch	51,674,484	62,860,303
Grade 1- normal	304,538,477	323,044,137
	356,212,961	385,904,440
Allowance for impairment	(3,541,699)	(2,458,424)
Carrying amount	352,671,262	383,446,016
Past due but not impaired		
Grade 2- Watch	51,674,484	62,860,303
Neither past due nor impaired		
Grade 1- normal	304,538,477	323,044,137
	356,212,961	385,904,440
Total carrying amount	**367,853,422**	**397,654,178**

The total loan impairment in accordance with IFRS as percentage of the total loans was 2.03% as at 31 December 2015 (2014: 1.55%).

The Bank's maximum exposure to credit risk before collateral held is as follows:

	2015 Ushs '000	2014 Ushs '000
Bank balances (Note 11)	19,850,122	21,487,018
Deposits from other banking institutions (Note 12)	50,294,955	31,224,098
Loans and advances to customers (Note 14)	367,853,422	397,654,178
Other assets (Note 15)	861,151	802,476
	438,859,650	**451,167,770**

The ratio of non-performing loans and advances to gross loans and advances (NPL ratio) in line with the Central Bank's regulations as at 31 December 2015 was 6.43%. (2014: 6.73%).

Past due but not impaired loans and advances refers to loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/ collateral available and/or the stage of collection of amounts owed to the Bank.

Write off policy

The Bank writes off a loan balance and any related allowances for impairment losses when the Bank's credit committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay back the entire exposure. Loans classified as loss are written-off not later than 90 days of being identified as such – in line with the central bank's credit classification and provisioning regulations.

Collateral held

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2015 or 2014. As an internal requirement, the forced value of the collateral security is over and above the amounts of loans and advances disbursed. The value of the banks collateral held was Ushs 1,137 billion as at 31 December 2015 (2014: Ushs 1.164 billion).

Large exposures and credit concentrations

As at 31 December 2015, the Bank did not have a single customer or group of related persons who had borrowed in excess of 25% of the Bank's core capital. (2014: nil).

c) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honor its obligations to deliver cash, securities or other assets as contractually agreed. Settlement limits form part of the credit approval/limit monitoring process described earlier.

d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations on its financial liabilities. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management of liquidity risk

The Bank has access to a diverse funding base. Funds are raised mainly from deposits and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank

strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank has an Asset and Liability committee that meet on a regular basis to monitor Liquidity risk, review and approve liquidity policies and procedures. The Treasury department monitors liquidity ratios on a daily basis.

Exposure to liquidity risk

A key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash in hand, balances with Bank of Uganda, placements maturing within three months and investments for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within three months. Details of the reported ratio of net liquid assets to deposits from customers at the reporting date were as follows:

	2015 Ushs '000	2014 Ushs '000
Net liquid assets	136,468,408	128,535,880
Customer deposits	306,005,781	282,979,754
Liquid assets to customer deposits ratio	45%	45%

In addition to the net liquid assets to deposit ratio, the Bank uses the following to monitor liquidity risk:
Inter-bank borrowing limits:

	2015 Ushs '000	2014 Ushs '000
At 31 December		
Maximum limit or the period	5,000,000	5,000,000

Advances to deposit ratio:

	Ushs %	Other currencies %
At 31 December		
% Limit for the period	75%	75%

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2015 to the contractual maturity date:

As at 31 December 2015	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5years	Over 5 years	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Financial assets						
Cash and bank balances with the Central Bank	36,194,634	-	-	-	-	36,194,634
Treasury Bills and other eligible bills	-	17,732,237	40,119,535	-	-	57,851,772
Deposits and balances due from banking institutions	36,729,396	-	13,565,559	-	-	50,294,955
Investment in bonds	672,662	913,612	14,100,429	27,486,704	12,784,135	55,957,542
Loans and advances to customers	29,294,868	12,619,156	57,073,593	124,981,855	143,883,950	367,853,422
Total financial assets	**102,891,560**	**31,265,005**	**124,859,116**	**152,468,559**	**156,668,085**	**568,152,325**
Non-financial assets						
Finance lease on lease hold land	-	-	-	41,609	239,471	281,080
Intangible assets	-	-	-	4,766,707	-	4,766,707
Property and equipment	-	-	-	2,073,606	27,007,624	29,081,230
Capital work in progress	-	-	-	2,323,549	-	2,323,549
Other assets	1,521,640	802,546	3,941,000	2,389,867	5,268,759	13,923,812
Total non-financial assets	**1,521,640**	**802,546**	**3,941,000**	**11,595,338**	**32,515,854**	**50,376,378**
Total assets	**104,413,200**	**32,067,551**	**128,800,116**	**164,063,897**	**189,183,939**	**618,528,703**
Financial liabilities						
Customer deposits	245,945,746	13,585,446	45,159,209	1,315,380	-	306,005,781
Deposits and balances due to other banks	3,001,397	-	-	-	-	3,001,397
Other liabilities	1,520,047	1,769,834	3,539,668	-	-	6,829,549
Provision for litigation and damages	3,564,587	-	-	-	-	3,564,587
Agency collection accounts	17,984	17,984	3,164,616	12,658,464	15,787,111	31,646,159
Other borrowed funds	8,433,933	1,179,825	17,277,710	95,840,754	-	122,732,222
Current tax payable	-	-	208,732	-	-	208,732
Dividends payable	-	-	11,314,244	-	-	11,314,244
Total financial liabilities	**262,483,694**	**16,553,089**	**80,664,179**	**109,814,598**	**15,787,111**	**485,302,671**
Non-financial liabilities						
Deferred tax payable	-	-	5,168,605	-	-	5,168,605
Other liabilities	73,513	147,026	4,109,407	2,021,151	1,265,462	7,616,559
Total-non financial liabilities	**73,513**	**147,026**	**9,278,012**	**2,021,151**	**1,265,462**	**12,785,164**
Total liabilities	**262,557,207**	**16,700,115**	**89,942,191**	**111,835,749**	**17,052,573**	**498,087,835**
Total Equity	**-**	**-**	**-**	**8,809,608**	**111,631,260**	**120,440,868**
Total Liabilities and Equity	**262,557,207**	**16,700,115**	**89,942,191**	**120,645,357**	**128,683,833**	**618,528,703**
Off balance sheet items	**7,475,291**	**-**	**-**	**-**	**-**	**7,475,291**
Liquidity gap	**(165,619,298)**	**15,367,436**	**38,857,925**	**43,418,540**	**60,500,106**	**(7,475,291)**
Cumulative gap	**(165,619,298)**	**(150,251,862)**	**(111,393,937)**	**(67,975,397)**	**(7,475,291)**	

29. Financial Risk Management (Continued)

As at 31 December 2014	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5years	Over 5 years	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Financial assets						
Cash and bank balances with the Central Bank	36,121,001	-	-	-	-	36,121,001
Treasury Bills	4,509,970	4,409,217	35,884,061	-	-	44,803,248
Balances due from banking institutions	28,421,240	2,802,858	-	-	-	31,224,098
Investment in bonds	651,478	8,288,013	12,499,060	13,752,690	1,500,033	36,691,274
Loans and advances to customers	23,921,141	17,559,202	47,970,684	130,332,374	177,870,777	397,654,178
Total financial assets	**93,624,830**	**33,059,290**	**96,353,805**	**144,085,064**	**179,370,810**	**546,493,799**
Non-financial assets						
Current tax recoverable	-	-	774,499	-	-	774,499
Finance lease on lease hold land	-	-	-	67,228	222,174	289,402
Intangible assets	-	-	-	6,676,785	-	6,676,785
Property and equipment	-	-	-	2,065,279	27,672,315	29,737,594
Capital work in progress	-	-	-	540,038	-	540,038
Other assets	1,220,528	631,232	3,346,113	2,210,430	4,849,905	12,258,208
Total non-financial assets	**1,220,528**	**631,232**	**4,120,612**	**11,559,760**	**32,744,394**	**50,276,526**
Total assets	**94,845,358**	**33,690,522**	**100,474,417**	**155,644,824**	**212,115,204**	**596,770,325**
Financial liabilities						
Customer deposits	207,455,368	7,803,645	66,485,531	-	1,235,210	282,979,754
Other liabilities	1,672,571	1,426,164	2,852,327	-	-	5,951,062
Provision for litigation and damages	2,646,987	-	-	-	-	2,646,987
Agency collection accounts	40,653	1,370,653	5,749,251	12,357,002	11,374,947	30,892,506
Other borrowed funds	8,761,544	1,765,767	15,851,039	107,635,311	11,895,251	145,908,912
Dividends payable	-	-	8,760,201	-	-	8,760,201
Total financial liabilities	**220,577,123**	**12,366,229**	**99,698,349**	**119,992,313**	**24,505,408**	**477,139,422**
Non-financial liabilities						
Deferred tax payable	-	-	3,725,361	-	-	3,725,361
Other liabilities	73,513	147,026	3,205,536	2,021,154	2,146,082	7,593,311
Total non-financial liabilities	**73,513**	**147,026**	**6,930,897**	**2,021,154**	**2,146,082**	**11,318,672**
Total liabilities	**220,650,636**	**12,513,255**	**106,629,246**	**122,013,467**	**26,651,490**	**488,458,094**
Total Equity	**-**	**-**	**-**	**2,554,043**	**105,758,188**	**108,312,231**
Total Liabilities and Equity	**220,650,636**	**12,513,255**	**106,629,246**	**124,567,510**	**132,409,678**	**596,770,325**
Off balance sheet items	**7,343,930**	**-**	**-**	**-**	**-**	**7,343,930**
Liquidity gap	**(133,149,208)**	**21,177,267**	**(6,154,829)**	**31,077,314**	**79,705,526**	**(7,343,930)**
Cumulative gap	**(133,149,208)**	**(111,971,941)**	**(118,126,770)**	**(87,049,456)**	**(7,343,930)**	

e) Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When control fails to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks.

Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment process, including the use of internal audit.

f) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Interest rate risk consists of the potential adverse impact on earnings and economic value of equity due to changes in net interest income and interest rates. The main source of interest rate risk in the Bank is repricing mismatch risk. This arises when there are mismatches in the timing of repricing of interest rates on assets, liabilities and off-balance sheet items especially when the Bank borrows short term and lends long term.

Interest rate risk arises from the banking and mortgage operations. Housing Finance Bank Limited assesses its interest risk through use of traditional gap analysis. Gap analysis measures the volumes of assets and liabilities subject to repricing within a given period according to their contractual repricing characteristics.

Management of market risks
Overall authority for market risk is vested in Asset and Liability Committee (ALCO). ALCO is responsible for the development of detailed risk management policies and for the day to day review of their implementation.

Interest rate risk
The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Bank's business strategies. Interest rate monitoring is done through the Bank's Asset and Liability Committee. The Bank does not have any significant interest rate risk exposures.

The Bank utilizes the gap analysis for measuring and managing interest rate risk. Under this, interest sensitive assets and liabilities are classified into various time bands according to their maturity. The size of the gap in a given 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, the interest rate sensitive assets (RSA) in each band are netted off against the interest sensitive liabilities (RSL) to produce a repricing gap for that time band.

A positive or asset gap indicates that the Bank has more RSA than RSL. This means that an increase in market interest rates could cause an increase in the net interest margin and vice versa. Conversely a negative gap or liability gap implies that the Bank's net interest margin could decline as a result of an increase in market interest rates and vice versa.

The statement of financial position items are excluded from the gap because the Bank does not bear any interest rate risk on these items. The table below summarises the exposure to interest rate risks. 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. The Bank does not bear an interest rate risk on off balance sheet items.

29. Financial Risk Management (Continued)

As at 31 December 2015	Up to 1month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Assets							
Balances with the Central Bank	-	-	-	-	-	36,194,634	36,194,634
Treasury bills and other eligible bills	-	17,732,237	40,119,535	-	-	-	57,851,772
Balances due from banking institutions	12,805,137	-	13,565,559	-	-	23,924,259	50,294,955
Investment in bonds	672,662	913,612	14,100,429	27,486,704	12,784,135	-	55,957,542
Loans and advances to customers	29,294,868	12,619,156	57,073,593	124,981,855	143,883,950	-	367,853,422
Total financial assets	**42,772,667**	**31,265,005**	**124,859,116**	**152,468,559**	**156,668,085**	**60,118,893**	**568,152,325**
Total non-financial assets							
Finance lease on leasehold land	-	-	-	-	-	281,080	281,080
Intangible Assets	-	-	-	-	-	4,766,707	4,766,707
Property and equipment	-	-	-	-	-	29,081,230	29,081,230
Capital Work in Progress	-	-	-	-	-	2,323,549	2,323,549
Other assets	-	-	-	-	-	13,923,812	13,923,812
Total non-financial assets	**-**	**-**	**-**	**-**	**-**	**50,376,378**	**50,376,378**
Total assets	**42,772,667**	**31,265,005**	**124,859,116**	**152,468,559**	**156,668,085**	**110,495,271**	**618,528,703**
Financial liabilities							
Customer deposits	163,523,035	13,585,446	45,159,209	1,315,380	-	82,422,711	306,005,781
Balances due to other banks	3,001,397	-	-	-	-	-	3,001,397
Other liabilities	-	-	-	-	-	6,829,549	6,829,549
Provision for litigation and damages	-	-	-	-	-	3,564,587	3,564,587
Current tax payable	-	-	-	-	-	208,732	208,732
Agency collection accounts	-	17,984	3,164,616	12,658,464	15,579,878	225,217	31,646,159
Dividends payable	-	-	-	-	-	11,314,244	11,314,244
Other borrowed funds	8,433,933	1,179,825	17,277,710	95,840,754	-	-	122,732,222
Total financial liabilities	**174,958,365**	**14,783,255**	**65,601,535**	**109,814,598**	**15,579,878**	**104,565,040**	**485,302,671**
Other liabilities	-	-	-	-	-	7,616,559	7,616,559
Deferred tax liability	-	-	-	-	-	5,168,605	5,168,605
Total non-financial liabilities	**-**	**-**	**-**	**-**	**-**	**12,785,164**	**12,785,164**
Total liabilities	**174,958,365**	**14,783,255**	**65,601,535**	**109,814,598**	**15,579,878**	**117,350,204**	**498,087,835**
Total Equity	**-**	**-**	**-**	**-**	**-**	**120,440,868**	**120,440,868**
Total liabilities and equity	**174,958,365**	**14,783,255**	**65,601,535**	**109,814,598**	**15,579,878**	**237,791,072**	**618,528,703**
Interest sensitive gap							
As at 31 December 2015	**(132,185,698)**	**16,481,750**	**59,257,581**	**42,653,961**	**141,088,207**	**(127,295,801)**	**-**

As at 31 December 2014	Up to 1month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Financial assets							
Bank balances with the Central Bank	-	-	-	-	-	36,121,001	36,121,001
Treasury bills and other eligible bills	4,509,970	4,409,217	35,884,061	-	-	-	44,803,248
Balances due from banking institutions	12,657,675	2,802,857	-	-	-	15,763,566	31,224,098
Investment in bonds	651,477	8,288,013	12,499,061	13,752,690	1,500,033	-	36,691,274
Loans and advances to customers	23,921,141	17,559,202	47,970,684	130,332,373	177,870,778	-	397,654,178
Total financial assets	**41,740,263**	**33,059,289**	**96,353,806**	**144,085,063**	**179,370,811**	**51,884,567**	**546,493,799**
Non-financial assets							
Intangible Assets	-	-	-	-	-	6,676,785	6,676,785
Property and equipment	-	-	-	-	-	29,737,594	29,737,594
Capital Work in Progress	-	-	-	-	-	540,038	540,038
Finance lease on lease hold land	-	-	-	-	-	289,402	289,402
Tax recoverable	-	-	-	-	-	774,499	774,499
Other assets	-	-	-	-	-	12,258,208	12,258,208
Total non-financial assets	**-**	**-**	**-**	**-**	**-**	**50,276,526**	**50,276,526**
Total assets	**41,740,263**	**33,059,289**	**96,353,806**	**144,085,063**	**179,370,811**	**102,161,093**	**596,770,325**
Financial liabilities							
Customer deposits	145,603,165	7,803,645	66,485,351	-	1,235,210	61,852,383	282,979,754
Other liabilities	-	-	-	-	-	5,951,062	5,951,062
Provision for litigation and damages	-	-	-	-	-	2,646,987	2,646,987
Agency collection accounts	11,200	1,352,400	5,749,251	12,357,002	11,118,374	304,279	30,892,506
Dividends payable	-	-	-	-	-	8,760,201	8,760,201
Other borrowed funds	8,761,544	1,765,767	15,851,039	107,635,311	11,895,251	-	145,908,912
Total financial liabilities	**154,375,909**	**10,921,812**	**88,085,641**	**119,992,313**	**24,248,835**	**79,514,912**	**477,139,422**
Non-financial liabilities							
Deferred tax liability	**-**	**-**	**-**	**-**	-	3,725,361	3,725,361
Other liabilities	**-**	**-**	**-**	**-**	-	7,593,311	7,593,311
Total non-financial liabilities	**-**	**-**	**-**	**-**	**-**	**11,318,672**	**11,318,672**
Total liabilities	**154,375,909**	**10,921,812**	**88,085,641**	**119,992,313**	**24,248,835**	**90,833,584**	**488,458,094**
Total equity	**-**	**-**	**-**	**-**	**-**	**108,312,231**	**108,312,231**
Total liabilities and equity	**154,375,909**	**10,921,812**	**88,085,641**	**119,992,313**	**24,248,835**	**199,145,815**	**596,770,325**
Interest sensitive gap							
As at 31 December 2014	**(112,635,646)**	**22,137,477**	**8,268,165**	**24,092,750**	**155,121,976**	**(96,984,722)**	**-**

g) Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Monitoring of foreign currency fluctuations is done through the Bank's Asset and Liability Committee.

The Asset and Liability Committee sets limits on the level of exposure by currency and total for both overnight and intra-day positions, which are monitored daily.

The Bank operates wholly within Uganda and its assets and liabilities are reported in Uganda shillings. Although it maintains trade with the majority shareholder and other correspondent banks it held no significant foreign currency exposure as at 31 December 2015.

	US Dollars	Euro	Pound Sterling	Other foreign currencies	Uganda shillings	Total
Assets	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**	**Ushs'000**
Cash and balances with the Central Bank	2,812,740	333,562	1,237,398	109,641	31,701,293	36,194,634
Deposits and balances due from other banking institutions	39,545,021	1,338,089	2,085,926	105,516	7,220,403	50,294,955
Loans and advances to customers	80,607,760	-	-	-	287,245,661	367,853,421
Other assets	383,492	-	-	-	13,540,318	13,923,810
Total assets	**123,349,013**	**1,671,651**	**3,323,324**	**215,157**	**339,707,675**	**468,266,820**
Liabilities						
Customer deposits	69,258,756	746,569	1,954,600	-	234,045,856	306,005,781
Other liabilities	2,445,845	10,691	15,823	-	32,078,337	34,550,696
Other borrowed funds	47,259,933	-	-	-	75,472,289	122,732,222
Total liabilities	**118,964,534**	**757,260**	**1,970,423**	**-**	**341,596,482**	**463,288,699**
Currency exposure gap	4,384,479	914,391	1,352,901	215,716	(1,888,808)	4,978,679
31 December 2014						
Total assets	105,689,438	773,468	833,602	603,834		107,900,342
Total liabilities	101,587,364	762,608	687,846	-		103,037,818
Currency exposure gap	4,102,074	10,860	145,756	603,834		4,862,524

Fair value versus carrying amounts of financial assets and liabilities carried at amortised cost. The fair values of financial assets and liabilities together with the carrying value shown in the statement of financial position are analysed as follows:

	31 December 2015		31 December 2014	
	Carrying amount Ushs '000	Fair value Ushs '000	Carrying amount Ushs '000	Fair value Ushs '000
Assets				
Cash and balances with the Central Bank	36,194,634	36,194,634	36,121,001	36,121,001
Treasury bills and other bills - Held to maturity	57,851,772	66,724,502	44,803,248	51,595,022
Investment in Government bonds – Held to maturity	55,957,542	55,957,542	36,691,274	36,691,274
Deposits due from other banking institutions	50,294,955	50,294,955	31,224,098	31,224,098
Loans and advances to customers	367,853,422	466,173,511	397,654,178	506,781,924
Other assets	13,923,811	13,923,811	12,258,208	12,258,208
	582,076,136	689,289,955	558,752,007	674,671,527
Liabilities				
Customer deposits	306,005,781	306,005,781	282,979,754	282,979,754
Deposits due to banks	3,001,397	3,001,397	-	-
Other liabilities	18,010,693	18,010,693	16,191,358	16,191,358
Agency collection account	31,646,159	31,646,159	30,892,506	30,892,506
Other borrowed funds	122,732,222	122,732,222	145,908,912	145,908,912
	481,396,252	481,396,252	475,972,530	475,972,530

h) Capital adequacy

The Bank monitors the adequacy of its capital using ratios established by Bank of Uganda.
The Bank's objectives while managing capital 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 to the shareholder's and
- To maintain a strong capital base to support the development of the Bank's business.

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

The Central Bank requires each bank to;
- Hold the minimum level of the regulatory capital of Ushs 25,000,000,000 (Twenty five billion)
- Maintain a ratio of total regulatory capital to the risk-weighted assets of not less than 12% and
- Maintain core capital of not less than 8% of risk-weighted assets.

The Bank's regulatory capital is divided into two tiers:

- Tier 1 Capital (Core Capital) consists of share capital (share capital and share premium) and retained earnings and the reserves created by appropriation of retained earnings. Any other deductions determined by Bank of Uganda are deducted in arriving at tier 1 capital.
- Tier 2 capital (Supplementary capital) includes the Bank's revaluation reserves, unencumbered general provisions for credit losses, subordinated bond and fair value adjustment reserve. Tier 2 capital is limited to 100% of core capital.

The capital ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets and off-statement of financial position commitments at a weighted amount to reflect their relative risk. Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to

the amount of capital deemed to be necessary to support them.

Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example cash and balances with Bank of Uganda and Bank of Uganda instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Balances with other Banks in Uganda have a 20% risk weighting because they carry some risk while balances with other Banks outside Uganda are risk weighted 20%, 50% or 100% depending on their credit rating. Property and equipment carries a 100% risk weighting, meaning that it must be supported by core capital equal to 8% and total capital equal to 12% of the carrying amount.

Other asset categories have intermediate weightings. Off-balance-sheet credit related commitments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets.

The table below summarises risk weighted assets of the Bank as at 31 December 2015:

	Statement of Financial Position/ Nominal amount		Risk weight	Risk weighted amount	
	2015 Ushs'000	2014 Ushs'000		2015 Ushs'000	2014 Ushs'000
Assets					
Cash and balances with the Central Bank	36,194,634	36,121,001	0%	-	-
Treasury bills and other eligible bills	57,851,772	44,803,248	0%	-	-
Deposits due from other banking institutions in Uganda	27,287,647	15,533,280	20%	5,457,529	3,106,656
Deposits due from banking institutions outside Uganda – Rated AA(+) to AA(-)	9,721,035	6,462,498	20%	1,944,207	1,292,500
Deposits due from banking institutions outside Uganda – Rated A(+) to A(-)	13,232,265	9,227,559	50%	6,616,132	4,613,780
Deposits due from banking institutions outside Uganda – Rated A(-) to non-rated	54,007	760	100%	54,007	760
Other assets	13,923,812	13,032,707	100%	13,923,812	13,032,707
Investment in treasury Bonds	55,957,542	36,691,274	0%	-	-
Loans and advances to customers	372,129,161	399,184,187	100%	372,129,161	399,184,187
Finance lease on leasehold land	281,080	289,402	100%	281,080	289,401
Intangible assets	4,766,707	6,676,785	0%	-	-
Capital work in progress Intangible assets	2,066,986	194,051	0%	-	-
Capital work in progress other	256,564	345,988	100%	256,564	345,988
Property and equipment	29,081,230	29,737,594	100%	29,081,230	29,737,594
On - statement of financial position	**622,804,442**	**598,300,334**		**429,743,722**	**451,603,573**
Off - statement of financial position:					
Letters of credit	465,626	526,283	20%	93,125	105,256
Performance bonds	80,331	1,503,023	50%	40,166	751,512
Guarantees	1,859,738	463,808	100%	1,859,738	463,808
Other commitments to lend	5,069,596	4,850,818	50%	2,534,798	2,425,409
	7,475,291	**7,343,932**		**4,527,827**	**3,745,985**
Total risk-weighted assets	**630,279,733**	**605,644,266**		**434,271,549**	**455,349,558**

The loans and advances used in the computation of the risk weighted assets is based on the FIA 2004 provisioning requirements and is derived as follows:

	Note	2015	2014
		Ushs 000	Ushs 000
Gross loans and advances	14	383,242,276	410,902,349
Specific provisions for loan losses	35	(8,993,519)	(9,854,342)
Interest in suspense	35	(2,119,596)	(1,863,820)
Net loans and advances		**372,129,161**	**399,184,187**

The table below summarises the composition of regulatory capital ratios of the Bank as at 31 December 2015:

	2015	2014
	Ushs 000	Ushs 000
Core capital (Tier 1)		
Share capital paid-up	61,000,000	61,000,000
Retained profits	39,956,960	29,465,605
Less deductions:		
Intangible assets	(4,766,707)	(6,676,785)
Capital work in progress (intangible assets)	(2,066,984)	(194,049)
Prohibited insider loans	(1,655,184)	(3,162,907)
Unrealised exchange gains	-	(87,000)
Total tier 1 capital	**92,468,085**	**80,344,862**
Supplementary capital (Tier 2)		
Revaluation reserves on non-current assets	5,737,398	5,937,516
Unencumbered general provisions for losses	3,758,505	4,029,096
Total Tier 2 capital	**9,495,903**	**9,966,612**
Total Tier 1+ Tier 2 capital	**101,963,988**	**90,311,474**
Risk weighted assets		
On-statement of financial position	429,743,722	451,603,573
Off-statement of financial position	4,527,827	3,745,985
	434,271,549	**455,349,558**
Capital ratios as per FIA		
Tier 1 capital ratio (FIA required Minimum - 8%)	**21.29%**	**17.64%**
Tier 1 + Tier 2 capital ratio (FIA required Minimum - 12%)	**23.48%**	**19.83%**

30. Fair Value Of Financial Instruments

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

a) Valuation models

The Bank measures fair values using fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

· Level1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

· Level 2: Inputs other than quoted prices included within level1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

· Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flows models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spread, bond and equity prices, foreign currency exchange rates and expected price volatilities and correlations.

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants as at the measurement date.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

b) Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a treasury back office function, which is independent of the front office management and reports to the Chief Finance Officer, and which has overall responsibility for verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

· Verification of observable pricing;
· Re- performance of model valuations;
· A review and approval process for new models and changes to models;
· Analysis and investigation of significant valuation movements; and
· Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement Level 3 instruments compared by the senior management committee.
· Significant valuation issues are reported to the Board Audit Committee.

c) Assets and liabilities measured at fair value

The table below analyses the assets measured at fair value at the reporting date, by level in the fair value hierarchy into the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

31December 2015	Note	Level 1 Ushs'000	Level 2 Ushs'000	Level 3 Ushs'000	Total Ushs'000
Property and equipment			20,599,824		20,599,824
Treasury bills	13	-	66,724,502	-	66,724,502
Government Bonds	13	-	55,944,199	-	55,944,199
		-	**143,268,525**	-	**143,268,525**

31December 2014	Note	Level 1 Ushs'000	Level 2 Ushs'000	Level 3 Ushs'000	Total Ushs'000
Property, plant and equipment			20,960,343		20,960,343
Treasury bills	13	-	51,595,022	-	51,595,022
Government Bonds	13	-	36,691,274	-	36,691,274
		-	**109,246,639**	-	**109,246,639**

d) Assets and liabilities not measured at fair value

The fair value is equivalent to the carrying amount for the assets and liabilities measured at amortised cost disclosed in these financial statements due to the short term nature of market related interest rates on those with a longer term.

31. Retirement Benefits Obligation

Substantially all the Bank's employees are eligible to participate in the Bank's retirement scheme (the scheme) which is a defined contribution scheme. The Bank is required to make annual contributions to the scheme at a rate of 10% of basic salary costs. Employees contribute approximately 5% of their basic salary. The Bank has no other material obligations for retirement benefits beyond the annual contributions under the scheme. The Bank also makes contributions to a statutory pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are shared between employer and employee at 10% and 5% respectively, of the employee salary. For the year ended 31 December 2015, the Bank contributed Ushs 2,968 million (2014: Ushs 2,894 million) for both the retirement benefit scheme and NSSF, which has been charged to profit or loss.

32. Assets Pledged As Security

As at 31 December 2015, the Bank had pledged property on Plot Number 1 Dundas Road and Plot Number 4, Wampewo Avenue, Kampala as security for the loan from PTA Bank. Treasury bills and Government bonds worth Ushs 10.1 billion are also pledged to NSSF to partially secure the Ushs 20 billion NSSF loan. There was also a lien placed on Plot 25, Kampala Road and a debenture on the Bank's performing mortgage book portfolio each securing 50% of the NSSF Ushs 25 billion loan as at the reporting date.

33. Related Party Transactions

The Bank is owned by the NSSF, the Government of Uganda and NHCC Limited. The following transactions were carried out with related parties:

33.1 National Social Security Fund

	2015 Ushs '000	2014 Ushs '000
a) Fixed deposits due to NSSF		
Fixed deposits	5,000,000	37,000,000
Interest accrued	18,630	2,911,948
	5,018,630	**39,911,948**

The rates on the fixed deposits are negotiated at normal commercial terms, through competitive bidding for the funds.

b) Loan from the NSSF

	2015 Ushs '000	2014 Ushs '000
Outstanding principle	31,500,000	35,166,667
Interest paid during the year	4,394,839	4,896,506
	35,894,839	**40,063,173**

c) NSSF Staff Mortgage Scheme

NSSF appointed Housing Finance Bank Limited to administer the fund's staff loan scheme in March 2010. The outstanding mortgage advances under this scheme amounted to Ushs 2,518 million. The sums reflected under other liabilities represent the amounts received for on lending to NSSF employees plus the amounts so far collected from the scheme beneficiaries as at period end. NSSF pays the Bank 1.5% per annum of the interest proceeds on each loan managed.

	2015 Ushs '000	2014 Ushs '000
At 1 January	29,453	526,076
Net collections during the year	299,894	243,896
Remittances to NSSF	(313,102)	(740,519)
At 31 December	**16,245**	**29,453**
Management fees earned by the Bank on this service	**28,800**	**38,955**

33.2 National Housing Construction Company Limited

a) Administered Funds due to NHCC Ltd

	2015 Ushs '000	2014 Ushs '000
At 1 January	11,200	10,302
Net collections during the year	31,501	61,498
Payments made during the year	(40,963)	(60,600)
At 31 December	**1,738**	**11,200**
Management fees earned by HFB on this service	**634**	**2,045**

b) Loan to the NHCCL

The Bank offered the NHCCL a construction finance loan. The following reflect the movements on the loan over the period:

	2015 Ushs '000	2014 Ushs '000
At 1 January	3,162,907	7,256,279
Interest income earned during the period	296,245	407,720
Amount repaid during the period	(2,517,733)	(4,374,428)
Amounts due to exchange movements	713,764	(126,664)
At 31 December	1,655,183	3,162,907

c) Deposit balances for NHCCL

The NHCC Limited operates a current account with the Bank. The following is the reflection of the account balances as at 31 December 2015:

	2015 Ushs '000	2014 Ushs '000
Current account balance	51,978	293,739

33.3 The Government of Uganda

a) PSHS Collection account

The Bank acts as an agent of the Government of Uganda on the management of debt arising from the sale of pool houses as described in note 22. The loan management service is provided on a commercial terms basis.

Namuwongo Collection account	2015 Ushs '000	2014 Ushs '000
Net collection during the year	25,636	52,131

33.4 Mortgages and advances to related parties

	2015 Ushs '000	2014 Ushs '000
To directors	180,167	197,724
To executive officers	4,183,175	3,127,047
To employees	16,934,978	17,509,289
	21,298,320	**20,834,060**
Interest earned on the loans	1,723,308	1,578,479

Loans and advances to customers as at 31 December 2015 also include loans to employees of Ushs 21.118 billion (2014: Ushs 20.640 billion). The collective impairment allowance relating to employee loans was Ushs 203 million (2014: Ushs129 million).

33.5 Key management compensation

	2015 Ushs '000	2014 Ushs '000
Salaries and other short term compensation	992,129	1,149,566

33.6 Director's remuneration

Fees for services as directors	367,444	370,303

34. Revaluation Reserve

The asset revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in other comprehensive income.

	2015 Ushs '000	2014 Ushs '000
At 1 January	5,937,516	4,555,925
Revaluation gain during the period	-	1,527,167
Transfer to retained earnings net of deferred tax	(200,118)	(145,576)
At 31 December	5,737,398	5,937,516

The reserve is not distributable.

35. Regulatory Credit Risk Reserve

	2015 Ushs '000	2014 Ushs '000
At 1 January	9,355,067	8,483,754
Transfer (to) /from retained earnings	(4,418,165)	871,313
At 31 December	**4,936,902**	**9,355,067**

The regulatory credit risk reserve represents amounts by which allowances for impairment of loans and advances determined in accordance with the Uganda Financial Institutions Act 2004 exceed those determined in accordance with International Financial Reporting Standards. These amounts are appropriated from retained earnings in accordance with accounting policy. The reserve is not distributable.

The regulatory credit risk reserve figure is analysed as follows:

	2015 Ushs '000	2014 Ushs '000
Provisions as per FIA 2004:		
Specific provisions	8,993,519	11,718,162
General provisions	3,758,505	4,029,096
	12,752,024	15,747,258
Impairment assessment as per IAS 39:		
Individual impairment	4,273,423	3,933,767
Collective impairment	3,541,699	2,458,424
	7,815,122	6,392,191
Regulatory credit risk reserve	**4,936,902**	**9,355,067**

36. Proposed Dividends

The Board of Directors has recommended payment of dividends of Ushs 8,809 million for the year ended 31 December 2015 (2014: Ushs 2,554 million).

Housing Finance Bank Limited is not limited on the amount of dividends it may pay to its shareholders other than the restrictions under Section 32 of the Financial Institutions Act, 2004 – regarding minimum capital and liquidity requirements of a financial institution. These dividends are paid out of retained earnings.

a) Dividends payable

At the Bank's previous Annual General Meetings, the shareholders declared dividends in line with the Bank's dividend policy which stipulates that 60% of the profit per year should be paid as dividends. The shareholders also resolved that the actual payment is deferred to a later date. This unpaid dividend amounting to Ushs 11.314 billion (2014: Ushs 8.760 million) has been invested in short-term assets.

37. Operating Segments

The major part of business of the Bank, which is all within Uganda, falls under the category of banking, with other income comprising less than 1% of the total income of the Bank.

a) **Basis for segmentation**

The Bank has the following four strategic divisions, which are reportable segments. These divisions offer different products and services and are managed separately based on the Bank's management and internal reporting structure.

Reportable segment	Operations:
Corporate Banking	Loans, deposits and other transactions and balances with corporate customers
Retail Banking	Loans, deposits and other transactions and balances with retail customers
Mortgage and development finance	Long terms loans for purchase and construction of property such as home mortgages, commercial mortgages, multi-unit loans, construction Finance, urban plot and vehicle and asset financing loans.
Treasury	Funding, through borrowings, use of derivatives for risk management purposes and investing in liquid assets such as short term placements and corporate and government securities

The Bank's management committee reviews internal management reports from each division at least monthly.

b) Information about reportable segments
Information related to each reportable segment is set out below.

	2015 Ushs '000	2014 Ushs '000
Assets:		
Corporate Banking	42,066,398	42,939,736
Retail Banking	65,429,219	76,972,922
Mortgage and development Finance	275,746,659	290,989,692
Treasury	164,104,268	112,718,620
Interest Income:		
Corporate Banking	9,481,321	7,872,124
Retail Banking	13,282,824	14,370,959
Mortgage and development Finance	47,204,261	46,844,042
Treasury	13,265,871	9,334,230
Deposits due to Customers:		
Corporate Banking	61,999,958	44,382,240
Retail Banking	215,663,993	172,704,658
Treasury	28,341,830	65,880,750

38. Events After The Reporting Period

The management of the Bank is not aware of any events after the reporting period, which may have a significant impact on the operational existence or on the financial performance of the Bank for the period.

39. Currency

These financial statements are presented in thousands of Uganda Shillings.

40. Country Of Incorporation And Registered Office

The Bank is incorporated in the Republic of Uganda under the Companies Act and is domiciled in Uganda. It is licensed under the Financial Institutions Act 2004 to conduct banking business. The address of the Bank's registered office is:

Housing Finance Bank Limited
Investment House,
Plot 4 Wampewo Avenue – Kololo
P. O. Box 1539
Kampala, Uganda

Sustainability Report

i. Value Added Statement

The Value added statement shows the social value added that the Bank makes through its activities. It is calculated as the Bank's performance minus payments such as cost of operations, depreciation and amortization. The resulting amount is distributed to the stakeholders who include employees, shareholders and the Government

Value Added statement for the ended 31 December 2015.

	2015	2015	2014	2014
Value Added	**(Shs'000)**	**(%)**	**(Shs'000)**	**(%)**
Total Revenue	100,468,648		91,529,767	
Less				
Interest paid to lenders	25,175,260		27,717,922	
Cost of other services	26,199,491		30,264,931	
Wealth created	**49,093,897**		**33,546,914**	
Wealth Distribution				
Salaries, wages and other benefits	24,267,864	49.4%	23,122,966	68.9%
Dividends to shareholders	8,809,609	17.9%	2,554,043	7.6%
Government	5,204,887	10.6%	1,368,743	4.1%
Depreciation and amortization	4,938,467	10.1%	4,798,467	14.3%
Retention surplus	5,873,070	12.0%	1,702,695	5.1%
Wealth Distributed	**49,093,897**		**33,546,914**	

Value added Ratios

	2015	2014
Number of employees	389	411
Revenue per employee (Ushs'000)	258,274	222,700
Wealth created per employee(Ushs'000)	126,205	81,623

i. Stakeholder Engagement

Our stakeholders' universe is defined as entities or individuals that can be affected by the Bank's activities, products as well as those whose actions can be expected to affect the ability of the Bank to successfully implement its strategy and achieve its objectives.

Stakeholders in the Bank include: investors, providers of finance, employees, contractors/suppliers, customers communities, regulators and government.

Shareholders

Shareholders are entitled to a fair return after all the stakeholders have been settled. Shareholders contribute to the long term operating capital, which together with borrowings provide the financial resources necessary for the Bank to operate and invest for the future growth.

The Bank engages the shareholders in continuous communication and financial performance. The Bank maintains contact with the shareholders through presentation of the results to shareholders during the Annual General Meeting and through Annual Reports.

Customers

The key to the Bank's success is understanding and responding to our customer needs. Our customers are key to ensuring that the Bank remains a profitable and sustainable organization. Our reputation is greatly impacted by the way we choose to treat customers, where we choose to operate from and our response to customer needs. The bank engages customer contacts through the following: Automatic Teller Machines (ATM), Branch network, Product research, dedicated sales staff, Marketing and advertising and telecommunication.

Customer confidentiality

As part of its banking activities, the Bank accumulates sensitive information regarding customers and their personal affairs. The Bank is subject to the common law principle of bank client confidentiality and also subscribes to the code of Banking practices that require banks to treat all customers' information as private and confidential.

The Bank's operational guidelines and staff rules and regulations govern the conduct and duties of the Bank employees.

Except for a few laid down exceptions, the Bank has continued to practice its duty of non-disclosure of customer information to third parties.

Fair treatment of customers

Over the long tenure of our operations, we have nurtured trust and inspired confidence of our customers and have ensured that we do not disadvantage them in our daily operations. To ensure fair treatment, the bank has documented channels through which customers can give feedback. To encourage customer feedback, we have placed within easy view, across our branches and offices, notices encouraging the relay of customer feedback. In addition the bank has continued to engage in initiatives that improve our level of services including:

- Training of staff on aspects of excellent customer service delivery
- Holding annual customer weeks, during which customer focused activities are performed
- Conducting customer satisfaction surveys to measure our level of services.

Employees

Housing Finance Bank recognises that our People are key in achieving both short and long term objectives. The Bank is committed to building a performance culture and providing a compelling employee value proposition for long-term sustainability. This is dependent on meeting employees' expectations through fair employment practices, career development as well as employee welfare. Employee development plans, training; leadership development and employee welfare programmes are components of the people agenda.

Staffing highlight as at 31st December 2015

The year closed with a total work force of 389 compared to 411 at end of 2014. In terms of demographics the bank has 189 male staff and 200 female staff. The highest number of employees are deployed in the Branch network, under the retail department.

Performance Management

The bank rolled out a new hybrid performance management tool that measures individual performance on strategy, technical and behavioural competences using a balanced score card, a Key result areas form and behavioural measurement component.

The new Performance management tool is intended to;

1. Clearly link individual performance to the Bank's strategy.

2. Help evaluate individual performance in line with employee's area of accountability.

Other Performance improvement initiatives

The Management team implemented a change management project (code named 'IGNITE') to run concurrently with all the various bank projects in line with the new strategic plan.

The project seeks to incorporate all the elements of an effective change management programme. This includes clarity in the strategic direction, engagement coupled with a clear communication plan. This programme was partly supported by an external change management consultant.

As part of balancing results and relationships, team sessions were held. These sessions were facilitated by the consultants with support from the head office IGNITE champions. The main items on the agenda were;

1. Building more trust and understanding of the need for change
2. Seeing what the individual's role would be in the change management process
3. Introduction to the department strategy maps and strategic objectives
4. Agreement on the team code of honor
5. Building team cohesion among staff.
6. To concretize the understanding and commitment to achievement of the department scorecards

Staff welfare

The Bank is committed to providing a conducive working environment for staff to execute their duties through the following ways:

1. Reviewing of staff salaries to match them with the labour market conditions
2. Preparing staff for retirement by operating a Retirement Benefit scheme for staff to support staff retirement savings.
3. Offering of staff loans at subsidized rates.
4. Team building activities for staff
5. Granting staff various types of leave to ensure work-life balance such as Annual leave, compassionate leave, sick leave and maternity/paternity leave.
6. The Bank has in place 2 medical insurance schemes

Talent management

The bank is an equal opportunity employer and believes that the quality of our people is a singular business advantage. We aim to attract, develop and retain the high calibre people with the skills, behavioral competencies and drive to help the Bank achieve its strategic objectives. The bank is very keen to give staff internal career growth options when they meet the requirements

Learning and development

Improving staff knowledge and skills is one of the Strategic objectives of the Bank in its Strategic Business Plan objectives 2015.

There has been a shift in the area of continuous learning & development as we grow our profits and performance through enhancement of various staff competences.

The European Investment Bank a non-profit long term lending Institution has partnered with Friends Consult to offer free training to all Bank staff in underwriting skills in various types of lending e.g. Mortgage, Leasing, Trade finance and Equity release.

There has been tremendous improvement in underwriting skills as reflected in reduction in Non- performing Assets and growth in bank profits level. They have gone further to improve financial management skills of our clients in various areas of Uganda.

The bank also equipped staff with skills such as customer relationship management and strategic leadership.

Social Responsibility Report

Having set the trend as the first Bank in East Africa to attain ISO 26000 certification, Housing Finance bank is committed to conducting business ethically and generating economic value for the greater benefit of our communities and stakeholders in a manner that is eco-responsible and sustainable with the guidance of the 7 core principles of Social Responsibility;

1. Organizational Governance
2. Human Rights
3. Labour Practices
4. Environmental Issues
5. Fair Operating Practices
6. Consumer Issues
7. Community Involvement in development

As part of the ISO East Africa pilot project on the uptake of the ISO 26000 standard, the Bank has incorporated the standard as we build internal capacity to drive our operations in a socially responsible manner and cognizant of the impacts of our decisions and activities on the environment and our stakeholders.

Community involvement and development

All areas of the Banks' business contribute directly and materially to social and community development projects. Further to this, the Bank also engages in social uplift projects in many communities in which we operate. These projects are initiated at business unit level in response to the specific need of the local communities and the capacity of the Bank to support them. Below are some of 2015's key partnerships that provided an avenue for the Bank to uplift livelihoods in our communities;

1. HFB - Fortportal Municipal Council partnership to install solar street lights along Lugard road.

The Challenge was that the unlit Lugard road had become a hub for thugs in the night who took advantage of the darkness to terrorise and rob pedestrians.

Our involvement: We facilitated the purchase of the solar street lights, whose installation cost Sh40.8 Million after which we formerly handed over to Fortportal Municipal council on November 10, 2015. Management also held a community forum at the launch with a business presentation and a Q&A session by the MD.

Upshot: In social interactions with residents, branch management noted the perceived safety of pedestrians walking alone after dark in the re-lit area was improved. The reaction of residents to the lighting was overwhelmingly favourable; it was a popular measure. It was concluded that street lighting was welcomed by the public and provided reassurance to some people who were fearful in their use of Lugard road.

As a consequence of the success of the project, the leadership of Fort Portal Municipal Council is exploring public-private partnerships that will positively boost the area.





Above are the images of the launch.

2. HFB partnership with Kampala North to sponsor medical treatment for Ugandan children with congenital heart defects.

The Challenge is that from every 1.5 million Children born every year in Uganda, about 15,000 have heart defects at birth (congenital heart abnormalities). Of those, about 8,000 children require corrective surgeries, which raises their chances to a normal life expectancy. After heart surgery, survival approaches 98%. Without treatment many of these children will die before 5 years of age.

Our involvement: Housing Finance Bank contributed $2,000 towards the Cancer charity walk that was organised by Rotary club of Kampala North together with Gift of Life on February 21, 2015 in support of medical treatment for children with congenital heart defects in Uganda. The MD, Housing Finance Bank graced the Charity Walk as the Chief Walker.

The event hosted a health camp too, where participants consulted with nutritionists and physicians for free and also show case of nutritional foods for sale was available.

Upshot:

- The event attracted over 2000 people who were educated on congenital heart abnormalities, the cause, signs and symptoms and treatment
- Over 60% consulted with the nutritionists and physicians and got tips on healthy living
- From media broadcasts of the event, more Ugandans were made aware of the congenital heart abnormalities and the hope for existence of treatment

3. HFB - Church Commissioners Holding Co. Ltd partnership to complete Church House

The Challenge: Conceived in 1966, construction of the 16-storey church house on Plot 34 Kampala Road commenced in 2011with a budget of Sh40.8 Billion. When complete, the building will house the offices of the Archbishop of Uganda with most of the space being let out to commercial interests.

Our involvement: The Bank contributed a sum of Sh10 Million towards the church House Project which the MD Housing Finance Bank handed over to Canon Joram Kahenano, the group CEO of Church Commissioners Holding Ltd.



Canon Kahenano (Right) receives dummy cheque of the Bank contribution

Our Christian customers have therefore developed more trust in the Bank from knowing that as an institution we value and are ready to support their initiatives.

4. HFB- Catholic Church partnership to facilitate event arrangements of Pope Francis' visit to Uganda

Housing Finance Bank contributed to a tune of UShs 9 Million towards the Pope's visit and the expansion of the Namugogo Martyrs Shrine fundraising drive.

Other fundraising activities organised by New Vision like the Papal



Participants and visitors at the kampala kids run



School children in Karamoja after receiving scholastic materials



walk and the sale of Holy Rosaries had HFB staff actively involved. Over 100 tickets were sold to staff for the papal walk and over 20 holy Rosaries bought.

5. HFB- Kampala Kid's Run partnership to fight illiteracy inorder to save the children of Karamoja.

The bank sponsored the Kampala Kid's run which was held on 6th December 2015 at Kati-Kati Grounds which was aimed at collecting funds to facilitate sensitization of the children of Karamoja on financial literacy.

As part of the plan to engage children and increase awareness on financial literacy, a team of HFB staff attended the Kampala Children's Run to teach and educate children on the benefits of an early start to saving and encouraged them to use Totos savings accounts.

Upshot:

- Scholastic materials including reading, text and exercise books, pens, pencils, etc were distributed to the children of Karamoja.
- Over 3000 children in attendance received financial literacy

6. HFB - Uganda Red Cross partnership Blood donation week, 26th-28th May, 2015

The Challenge: In Uganda 250,000 units of safe blood is required to meet health needs however only 220,000 units are collected, leaving a deficit of 30,000 units and yet the need keeps increasing due to the high disease burden. WHO recommends 1% of the population to be blood donors and if we are to go by this requirement, we need to collect 340,000 units of blood. A unit is equal to 450mls.

Our involvement: We held a 3 day blood donation campaign throughout our branch network, during the month of May, to meet the blood shortage.

Upshot:

- A total of 823 units of blood was collected (approx. 2 days worth of the total blood collected by the entire country)
- Sensitisation on healthy and safe living
- Donors got to know their HIV status
- Donors got to know their blood groups

7. HFB- UPDF partnership to hold the 9th Edition of EAC Military Games and Cultural Events 2015 to enhance solidarity and promote cooperation through sports and culture among the EAC Partner States Armed Forces.

The military games, representing troops from member states of the East African Community are organized to bring the troops into interaction and share best practise. With the Games, the EAC aims to undertake mutual technical assistance towards the development of sports and culture in the Partner States Armed Forces, as well as contribute to regional efforts for peace through sports and culture.

The Challenge: Ideally, there should be indisputable collaboration

between armed forces of partner states, however issues of proximity, political, economic and cultural diversification and also non interactions hinder unity among them.

Our involvement: The Bank contributed sh5 million towards organizing EAC Military games that were hosted by UPDF in Uganda between the 17th – 31st August 2015 in Mandela National Stadium.

8. Sponsorship of the Women's Business breakfast at Sh1.5 Million

The Women's committee of the Association of Real Estate Agents (AREA-Uganda) an umbrella institution of real estate agency/brokerage companies and real estate agency /brokerage professionals in Uganda and other organizations that have key interests in real estate agency/ brokerage; organized a Business breakfast that created a platform for women in the Real Estate sector to share business experiences.



Consumer Issues

During this period, all staff were trained on Financial Consumer Protection Guidelines to guide their interaction with customers. We have continued to provide accurate information using fair, transparent and helpful information on contractual processes and through design of appropriate products and services.

In addition, awareness sessions on consumer financial literacy in association with European Investment Bank, Uganda Bankers Association, Uganda Institute of Banking & Financial Services and the Bank of Uganda among others, were conducted. The awareness sessions focused on but were not limited to the following regulatory guidelines;

A. Financial Consumer Protection Guidelines
B. The Mortgage act
C. Financial Institutions Act
D. Anti-Money laundering
E. Loans

Labour Practices

Human Development and training in the workplace

Training & Development

The Bank continuously recognizes the importance of its human resource as a key factor in its growth. Training and development are part of the Strategic plan and a major agent for cultural change.

In this reporting period, the Bank continued to allocate its training budget amongst all departments according to needs/strategy. In addition, generic courses have been conducted by the Bank in order to ensure that staff are aware of what other departments are mandated to do. These include the credit recovery trainings, consumer protection guidelines, Fraud, money laundering trainings among others. In addition to department specific trainings, over 26 generic training Programmes were administered by the Bank in 2015. Last year the Bank ran two internship programmes in which over 20 undergraduate students benefited. Each intern was paid a token facilitation of Sh 150,000.

Working Conditions and Social Protection

All staff are encouraged to abide by local health and safety regulations in line with the Ministry of Labour, Gender and Social development guidelines. The Bank continuously makes it a practice to invite health experts to educate staff on various health issues such as HIV prevention, Breast cancer etc. Staff are regularly trained in fire drills so as to be prepared for any fire emergency. The bank provided staff with free cancer screening and HIV testing and counselling on world AIDS day.

Health and safety at work

The Health and safety policy is part of the HR Policy and Manual which highlights the principles, responsibilities and requirements for managing the promotion and maintenance of a healthy and safe work environment for staff, customers, visitors and contractors on the Bank's premises. This involves anticipation, recognition, evaluation and control of conditions arising in or from the workplace that may pose threats to the health and safety of persons. The Bank has also provided sanitizers and safe drinking water for the staff and visitors for use throughout the year.

Equal opportunities Employer

The Bank is committed to providing equal opportunities to all workers and job applicants. Last year no job applications received less or more favourable treatment on the grounds of sex, marital status, sexual orientation, race, colour, belief or origin. All prospective employee applications for positions advertised internally and externally, received similar treatment and employees are responsible for complying with the Constitutional and universal standards of non-discrimination.

Participation at the International Workers Day Celebrations

The International Worker's Day is celebrated annually on 1st May and is dedicated to the celebration of workers; past and present; that have helped provide the social, political and economic backbone of the country.

As an equal opportunity employer, Housing Finance Bank has continued to provide Housing Finance solutions to a multitude of employees and workers across the entire country. Further-more, the bank has continued to promote staff rights at work and offer decent employment opportunities. As such we joined in the celebrations by;

1. Participating at the parade during the National day celebrations in Kisoro district.
2. Sending congratulatory message to all workers across the country.

Products and Services

Savings Products



1. Classic Savings

This is a regular savings account with unrestricted withdrawals. This account is available to everyone and provides a quick and efficient means of getting your money when you need it. The account opened with only Ushs 10,000/=

2. Premium Savings Account

The premium savings account offers flexibility for customer transactions. It comes with a savings cheque book that allows for third party transactions. The account is opened with a minimum amount of Ushs 100,000/=

3. Toto's Treasure Account

This is an innovative account targeting children right from early age up to the child's 18th birthday. Parents or guardians start saving early for the benefit of securing the financial future of their children. It has an opening amount of Ushs 30,000/=

4. Super Saving's Account

Watch your savings grow in a short period of time with the super saving account. It allows you a maximum of only one cash withdrawal per month while you are rewarded with a very attractive interest rate on accumulated savings. The account is opened with Ushs 510,000/=

5. Shelter Savings

Are you looking for an account where you could save for your dream house or any other venture? Then apply for a Shelter savings account. With an opening amount of Ushs 110,000/=, this account will give you greater control on how much you can save while you earn an attractive interest.

6. Easy Account

The Easy account offers transactional functions for everyday banking. Its a card based account that gives you fast & convenient access to your funds at all our ATMs across the country.

7. U-savers Account

This is the Housing Finance Bank student's account targeting ages 18-25 years. This account can also act as a cross over for Toto's account holders who will be enrolled upon attaining the age of 18 years. Its opening balance is Ushs 10,000/=

8. Save Plus Account

This is an incremental savings account for future investments. Its opening balance is Ushs 50,000/=

9. Fixed Deposit Account

This account will provide you with a higher rate of interest than the regular savings account at the time of maturity. Here accumulated savings are not withdrawn before the time of maturity. The longer the term of deposit, the higher the rate of interest accrued on the account. The minimum amount to be fixed is Ushs 1,000, 000/= for a period of 3-12 months.

10. Collective Savings Account

This account mainly applies to groups of people with a common goal. This is a high interest earning account with no minimum balance, for achieving long term savings goals such as building projects, land acquisition, raising capital for business start-ups, fixed asset acquisition etc.

11. Current Accounts

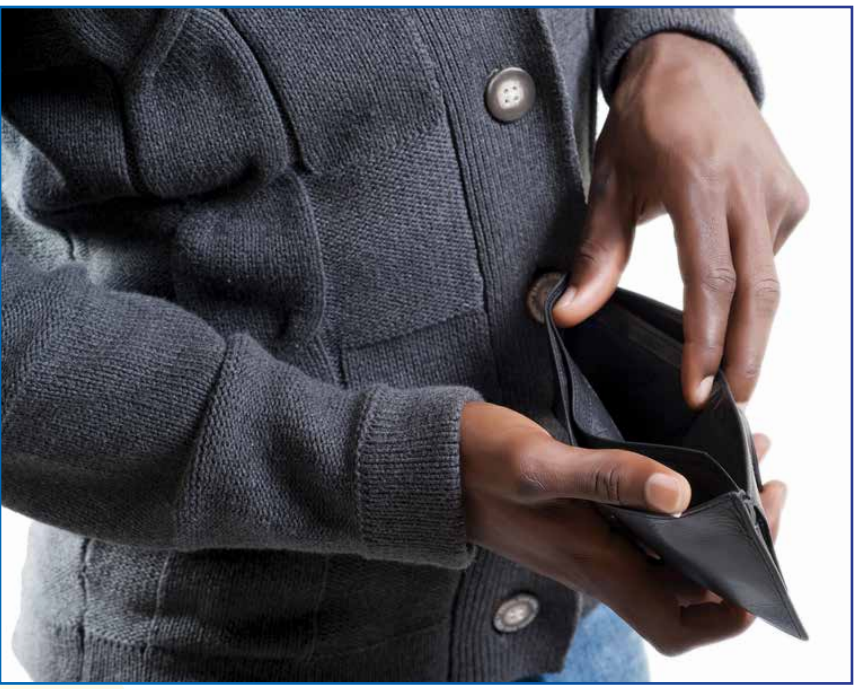
For only Ushs 50,000/= and Ushs 100,000/= open a personal or corporate account respectively to provide you with instant access to your money. It's designed with the financial flexibility needed to help manage your day to day life with ease. It's operated using a cheque book and available to individuals, limited companies, Societies etc. The account can be opened in Uganda Shillings, US dollars, British Pounds and Euros

12. Call Deposit Accounts

If you need an investment account that earns you good interest - without sacrificing immediate access to your money - then a call deposit is a good option. Funds on the call deposit account earn interest and can be accessed within a 48 hour notice period.

Call deposit accounts can be opened by businesses (organizations) and individuals.

Credit Products



Personal Loans

1. Swift loan product

Are you a salary earner? Is your employer ready to undertake to remit your monthly salary through an account in Housing Finance Bank, then the Swift loan would be the appropriate facility for you. You can use this loan facility to meet your personal obligations such as: Educational needs, Home Furnishing, Purchasing of personal vehicle etc.

A maximum of 120 million shillings can be accessed for this loan and its payable within a period of 60 months. (We however, have arranged special schemes with employers where Swift loan limits have been raised up to 300 million.

2. Personal secured loan

Do you have any other source of income other than the salary? Then the Personal secured loan would be the perfect choice for you. We shall lend you up to 120 million shillings or equivalent in dollars for this loan, which you will repay in a period of 120 months. Personal secured loan product is also suitable for applicants whose employers are not yet prequalified for Unsecured Swift Loan schemes with HFB.



Business Finance

3. Business loans

This is a short-term facility intended to further business growth or expansion.

4. **Small business loan**

This is a Short term loan designed to facilitate business expansion, re-stocking and settlement of business obligations. A maximum of 50 million shillings is accessible and is payable in 12 month.

5. **Trade Finance Service**

Importers, exporters and local traders! this is a one stop shop for you. Pick from a wide range of ground-breaking services that suits your trading needs. Product ranges include:

- **Letters of Credit**

  This is a payment undertaking given by the bank, to the overseas/domestic seller/supplier, which is issued on behalf of the importer/buyer. We shall effect payment upon presentation of required documents by the seller/supplier within a specified time frame, provided all terms and conditions of the letter of credit are complied with.

- **Documentary collections**

  This is a more or less an international cash on delivery where Banks act as intermediaries to collect payment from the buyer in exchange of the transfer of documents that enable the holder to take possession of the goods. The exporter retains control over the consignment until payment is effected or financial documents are accepted.

- **Invoice discounting financing**

  This is short term Trade Finance to enable you the importer or exporter trading on an open account basis to raise pre or post shipment finance using a commercial invoice. Transactions can be domestic or cross border.

- **Pre-shipment financing**

  Pre-shipment finance is short term finance granted to the exporter prior to shipment against the security of an original authenticated irrevocable export letter of credit lodged with the Bank.

- **Supply chain financing**

  This is a bilateral financing arrangement through which the bank offers packaged facilities to all stages of the corporate supply chain thereby improving working capital management and liquidity generation.

6. **Warehouse Receipt Financing**

Access upto 60% credit finance against goods in the warehouse to meet either your agricultural produce or payment of URA dues. This loan facility is available to you with security being stock held in a designated

warehouse. It's provided within 2 components that is: Agricultural commodity financing and Tax and freight component. A warehouse receipt is used as proof of ownership of stock in a designated warehouse.

7. Bank Overdrafts

An Overdraft is a credit facility loaded to the customer's current account (as a limit) giving them the convenience to borrow against this limit in instances when their account balance is zero.

8. Bank Guarantee

This is a written undertaking by the bank at the request of the client in favor of a beneficiary for supplying good or a service. The bank agrees to pay third parties in the event that the client fails to meet his/her obligations

The applicant should be an existing account holder with Housing Finance Bank and the facility is extended to a period of 12 months.



Mortgage Financing

1. Home Loan

Do you want to purchase/complete your residential property? Then accesses up to 80% financing to enable you realize your dream. This facility has a maximum repayment period of 20 years at affordable interest rates.

2. Growing House loan

We understand that sometimes home construction can stall due to lack of funds. So why not come and talk to us? We offer funds to enable incremental construction of a residential home. Maximum repayment period is 10 years.

3. Land Purchase Loan

Are you looking for funds to purchase that desired land? Then the Land Purchase loan is the solution. Access up to 70% of the value of the land payable in 5 years to buy any type of land be it leases, mailo or freehold. This loan is available for land purchases that are 30 km from Kampala and 5 km within municipalities.

4. **Equity Release**

Take advantage of the equity in your property to finance personal/ business needs. The maximum loan is up to 300 million shillings its payable in a maximum period of 10 years.

5. Multi units' Purchase /Completion Mortgage

This loan enables you to purchase or construct 2 or more residential units to let. The loan amount is up to 80% of the property value and is payable in a maximum period of 20 years.

6. Commercial Mortgage

Are you interested in acquisition of commercial business premises? Then the commercial mortgage could facilitate you in attaining your plans. This loan enables you to purchase/construct commercial premises such as Hostels, Hotels, schools, offices and commercial buildings. We shall lend you up to 60% of the property value which you will pay in a maximum period of 10 years.

7. Vehicle and Asset Finance (VAF)

Vehicle and Asset finance has a whole range of products to suit your needs these include: finance lease, Vehicle loans, insurance premium finance and operating lease.

Money Transfer Services



1. Money gram transfer payment system

Money gram is an international money transfer service that allows sending and receiving money safely, quickly and conveniently. The sender and receiver don't need to have an account with the bank all that is needed is an 8 digit reference number and valid identification.

2. Western Union Money transfer Services

The fastest way of sending and receiving money locally in Uganda and worldwide. The service is available at Housing Finance Bank and there is no requirement for the sender or receiver to have an account with HFB.

- E-payments
- Other services

3. Telegraphic money transfer (Swift)

Transact worldwide with the telegraphic money transfer service. Transactions can be made in US dollars, Euros, Kenya shillings, British pound sterlings, and South Africa Rands and Japanese yen

4. Electronic funds transfer (EFT)

You can electronically transfer money from one bank to another including the central bank, through the clearing process. This is used by companies for payment of salaries of their staff in another bank. EFTs are credited on a customer account in a period of 6 hours with a maximum of 24 hours.

5. Direct Debit (Debit EFT)

This is where a customer instructs his bank to debit his account and send funds to pay another party in another bank. Settlement of this transaction is in period of 48 hours.

6. RTGS (Real Time Gross Settlement)

RTGS is an interbank real time transfer of funds from one bank to another. It's executed within a minimum time of two hours from the time of receipt of instruction. This service is available from 9:00am to 4:00pm Monday to Friday. It is not only for big amounts it can be used for any timely amount one wants to transfer.

7. Internal funds transfer

This is a convenient way of transferring customer funds from one account to another with in Housing Finance Bank

Other Products and Services







1. Insurance premium finance

This is a financing option used by customers to meet annual insurance premium, rather than outlay the lump sum upfront. This facility is payable within a period of ten months.

2. Treasury bills

They are short term debt instruments issued by the Government regularly to the investing public. The bills are auctioned every fortnight (twice a month) and issued with maturities of 91 days, 182 days, and 364 days. Customers intending to apply for purchase of Treasury bills can do so through the bank.

3. Treasury Bonds

These are long term debt instruments issued by the government. They are auctioned once a month and issued with maturities of 2 years, 3 years, 5 years and 10 years. They have fixed rate of interest which is paid twice a year. Customers intending to apply for purchase of Treasury bills can do so through the bank.

4. Safe Custody

Secure your valuables with the safe custody facility. Such could include: Land titles, Agreements, ornaments, Receipts, Academic certificates etc.

5. URA collection

Make your URA payments at any of our branches

6. Salary processing

Employers can take advantage of the salary processing facility to process employee's salary instantly onto their accounts in the bank.

7. ATM points

Access your funds using the bank's 24 hour self service facilities through your ATM card. These facilities are located at both our branches and offsite locations.

8. Standing Orders

Customers can sign instructions at their branch to transfer funds periodically from one account to another or from one bank to another.

9. Custodial services

Organizations and companies can entrust Housing Finance Bank to be custodians of their staff retirement benefit schemes.

10. Foreign exchange products

Buy and sell in major currencies such as US dollars, British pounds, Euros and Kenya shillings at favorable rates.

Bank Contact Information

Bank Contact Information

Registered Office
Housing Finance Bank Limited
Investment House
Plot 4 Wampewo Avenue, Kololo
P. O. Box 1539
Kampala, Uganda
Tel: +256 4142591/2
Website:www.housingfinance.co.ug

Secretary

Ms Anne Abeja
Housing Finance Bank Limited
P. O. Box 1539
Kampala

Bank's Solicitors

Nangwala, Rezida &Co. Advocates& Legal Consultants
Suite No. 5 & 6, 2nd Floor Block B
Plot No 7/9, Buganda Road
P. O. Box 10304
Kampala

Auditors

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

Correspondents Banks

Deutche Bank Trust Company Americas
Standard Chartered New York
Standard Chartered Bank London
Standard Chartered Bank Germany
Standard Chartered Bank, Kenya
Standard Bank of South Africa
Standard Chartered Bank, Tokyo Japan

Branch Network

Map of Uganda showing our branch & ATM network



Kololo Branch
Investment House
Plot 4, Wampewo Avenue,
Kololo
Tel: 256-414-259651/2

Kampala Road Branch
Plot 25, Kampala Road
Tel: 256-414-253208/9

Namuwongo Branch
Plot 38, Kisugu Road
Tel: 256-414-255692/3

Ntinda Branch
Ntinda Shopping Centre
Plot 1, Kimera Road
Tel: 256-414-289118

Nakasero Branch
Plot 34A, Nakasero Road
Tel: 256-414-236673

Najjanankumbi Branch
Plot 1032 Pelican House
Tel:256-414-266054
Tel:256-414-266064

Kikuubo Branch
Muzinge Dry Cleaners Building
Plot 54-56 William Street,
Tel: 256-414-236163/5

Ovino Branch
Ovino Mall
Plot 22, Kibuga Rd, Kisenyi
Tel: 256-414-271880
Tel: 256-414-271871

City Branch
Plot 64/68, Yusuf Lule Road
Tel: 256-414-236671

Ndeeba Branch
Plot 94/95/96, Masaka Road
Tel: 256-414-271156

Upcountry Branches

Lira Branch
Plot 4, Bazaar Road
Tel: 256-473 420237/8

Gulu Branch
Plot 26, Labwor Road
Tel: 256-471-432530
Tel: 256-471-432540

Jinja Branch
Beamteks Plaza, Main Street
Plot 68 Main Street
Tel: 256-434-123057
Tel: 256-434-123059

Mbarara Branch
Classic Hotel Building
Plot 57, High Street
Tel: 256-485-421927
Tel: 256-485-421552

Mbale Branch
Bugisu Cooperative Union
House
Plot 2, Court Road
Tel: 256-454-431134/6

Arua Branch
OB Plaza
Plot 19/11, Adumi Road
Tel: 256-476-420375/6

Tororo Branch
Plot 11 Mbale Road
Tel: 256-454-445130
Tel: 256-454-445167

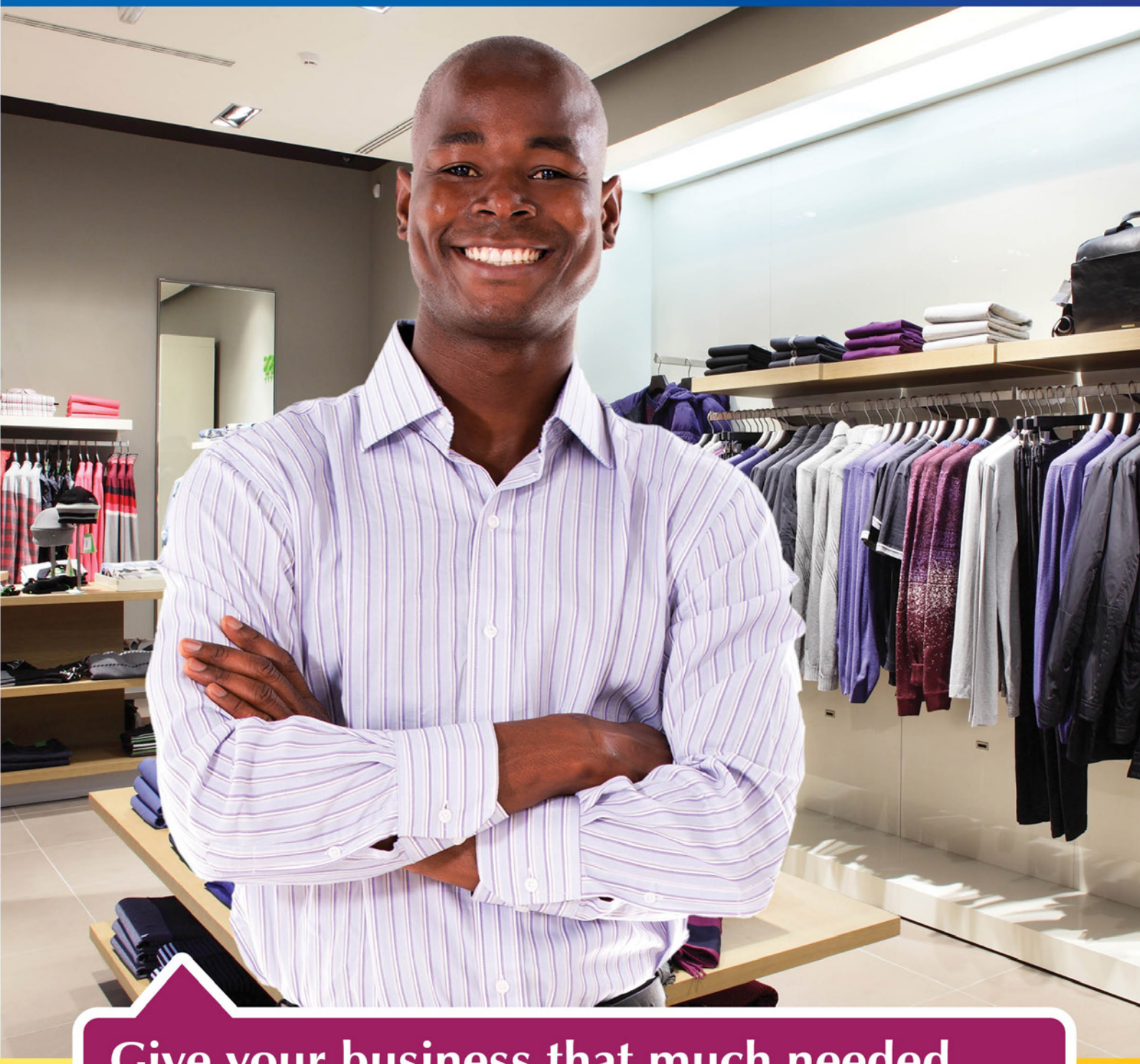
Mukono
Plot 51 Kampala Road
Tel: 256-414-291586
Tel: 256-414-291287

Fort Portal Branch
Plot 4, Kyebambe Road
Tel: 256-483-422037

Off- Site ATM Locations

- Naalya at Quality Shopping Mall
- Bugolobi at Middle East Hospital Complex
- Nakawa at Capital Shoppers Complex
- Kabalagala at the T-Junction along the Kampala - Kansanga road
- Kireka along the Kampala - Jinja Rd before Total Service Station
- Lubowa at Quality Shopping Village
- Entebbe Town at Plot 23 -25 Kampala Road (Opposite Four Turkeys Bar)

NOTES



Give your business that much needed boost with our business loans

We understand that sometimes a business does need a financial boost and that is why we have a range of business loan solutions that help you boost you business - whether big or small.

For more information, visit any of our branches near you or call us on

Tel: 0417 707 689/771

Housing Finance Bank



Housing Finance Bank
4 Wampewo Avenue, Kololo
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