

NATIONAL SOCIAL SECURITY FUND
ANNUAL REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

**NATIONAL SOCIAL SECURITY FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

CONTENTS	PAGE
Fund Information	1-2
Report of the Directors	3
Statement of Directors' Responsibilities	4
Report of the Independent Auditors	5 - 6
FINANCIAL STATEMENTS:	
Statement of Changes in Net Assets Available for Benefits	7-8
Statement of Net Assets Available for Benefits	9
Statement of Changes in Members' Funds and Reserves	10
Statement of Cash Flows	11
Notes to the Financial Statements	12-76

**NATIONAL SOCIAL SECURITY FUND
FUND INFORMATION
FOR THE YEAR ENDED 30 JUNE 2016**

DIRECTORS

Mr. Patrick Byabakama Kaberenge
Mr. Pius Bigirimana
Mr. Patrick Ocailap
Mrs. Sarah Walusimbi
Mr. Nelson Wafana
Mr. Andrew Stewart Obita
Mrs. Penninah Tukamwesiga
Mrs. Florence Namatta Mawejje
Mr. Richard Byarugaba

Chairman (Appointed 01 September 2015)
Member (Appointed 01 September 2015)
Member (Appointed 01 September 2015)
Member (Appointed 01 September 2015)
Member (Appointed 01 September 2015)
Member (Appointed 01 September 2015)
Member (Appointed 01 September 2015)
Member (Appointed 01 September 2015)
Managing Director

HEAD OFFICE

14th Floor, Workers House
Plot No. 1, Pilkington Road
P.O. Box 7140
Kampala

AUDITOR

The Auditor General
Office of the Auditor General
Apollo Kaggwa Road
P.O. Box 7083
Kampala

DELEGATED AUDITORS

KPMG
Certified Public Accountants
3rd Floor, Rwenzori Courts
Plot 2 & 4A, Nakasero Road
P. O. Box 3509
Kampala, Uganda

BANKERS

Standard Chartered Bank Uganda Limited
Speke Road
P.O. Box 7111
Kampala

Citibank Uganda Limited
Centre Court, Plot 4, Ternan Avenue
Nakasero
P.O. Box 7505
Kampala

**NATIONAL SOCIAL SECURITY FUND
FUND INFORMATION
FOR THE YEAR ENDED 30 JUNE 2016**

BANKERS (cont'd)

Stanbic Bank Uganda Limited
17 Hannington Road
P.O. Box 7131
Kampala

Housing Finance Bank Limited
25 Kampala Road
P.O. Box 1539
Kampala

Tropical Bank Limited
Plot 27 Kampala Road
P.O. Box 9485
Kampala

Bank of Baroda Uganda Limited
18 Kampala Road
P.O. Box 7197
Kampala

Barclays Bank of Uganda Limited
Plot 2A & 4A, Nakasero Road
P.O. Box 7101
Kampala

Crane Bank Limited
Plot 38, Kampala Road
P.O. Box 22572
Kampala

ADVOCATES

Sebalu & Lule Advocates
S&L Chambers
Plot 14, Mackinnon Road,
P. O. Box 2255,
Kampala, Uganda

Kampala Associated Advocates
Plot 14, Nakasero Road,
P. O. Box 9566,
Kampala, Uganda

GP Advocates
(Formerly Omunyokol & Co. Advocates)
Colline House, 3rd Floor
Plot 4, Pilkington Road
P.O. Box 6737
Kampala, Uganda

Nangwala Rezida & Co. Advocates
Plot 9, Yusuf Lule Road,
P. O. Box 10304,
Kampala, Uganda

Kiwanuka & Karugire Advocates
Plot 5A2, Acacia Avenue
P. O. Box 6061
Kampala, Uganda

Kasirye, Byaruhanga & Co. Advocates
Plot 33, Clement Avenue
P.O. Box 10946
Kampala, Uganda

Ligormac Advocates
5th Floor Western Wing,
Social Security House
P.O. Box 8230
Kampala, Uganda

**NATIONAL SOCIAL SECURITY FUND
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2016**

The directors submit their report together with the audited financial statements for the year ended 30 June 2016 which disclose the state of affairs of the National Social Security Fund ('the Fund' or 'NSSF'), in accordance with Section 32 (Cap. 222) of the National Social Security Fund Act ('NSSF Act').

1. Principal activity

The Fund was established by an Act of Parliament (1985) to provide for its membership, payment of contributions to, and payment of benefits out of the Fund. NSSF is a provident fund (pays out contributions in lump sum). It covers all employees in the private sector including Non-Governmental Organizations that are not covered by the Government's pension scheme. It is a scheme instituted for the protection of employees against the uncertainties of social and economic life. The Fund is financed by the employees' and employers' contributions. The total contribution is 15% of the employees' gross salary, of which 10% is paid by the employer and 5% is paid by the employee.

2. Results from operations

The results of the Fund for the year ended 30 June 2016 are set out on page 7.

3. Interest to members

Interest is computed based on the opening balances of the members' funds less benefits paid during the year. The rate paid during the year ended 30 June 2016 was 12.3% (2015: 13%).

4. Reserves and accumulated members' funds

The reserves of the Fund and the accumulated members' funds are set out on page 9-10.

5. Unallocated members' funds

These are collections received from employers that have not yet been allocated to individual member accounts due to missing details of the members. Management has put in place mechanisms to continuously follow up the missing details from employers in order to update the individual member accounts.

6. Directors

The directors who held office during the year and up to the date of this report are set out on page 1.

7. Auditors

In accordance with Section 32 (2) of the NSSF Act (Cap 222) Laws of Uganda, the financial statements are required to be audited once every year by the Auditor General or an auditor appointed by him to act on his behalf. For the year ended 30 June 2016, M/s KPMG Certified Public Accountants were appointed to act on behalf of the Auditor General.

8. Approval of the financial statements

The financial statements were approved at the meeting of the directors held on 28th Sept. 2016.

By order of the board,


.....
Mr. Richard Wejuli Wabwire
Corporation Secretary

Date: 30th September 2016

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2016**

The Fund's directors are responsible for the preparation and fair presentation of the financial statements of National Social Security Fund set out on pages 7 to 76, comprising the Statement of Net Assets Available for Benefits as at 30 June 2016, the Statements of Changes in Net Assets Available for Benefits, Changes in Members' Funds and Reserves and Cash Flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards 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.

The directors' responsibilities include: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. They are also responsible for safe guarding the assets of the Fund.

Under the NSSF Act, the directors are required to prepare financial statements for each year that give a true and fair view of the state of affairs of the Fund as at the end of the financial year and of the operating results of the Fund for that year. It also requires the directors to ensure the Fund keeps proper accounting records that disclose with reasonable accuracy the financial position of the Fund.

The directors accept responsibility for the financial statements set out on pages 7 to 76 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Financial Reporting Standards. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the surplus and cash flow for the year ended 30 June 2016. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

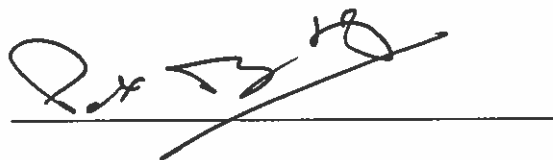
The directors have made an assessment of the Fund's ability to continue as a going concern and have no reason to believe the Fund will not be a going concern for the next twelve months from the date of this statement.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the International Financial Reporting Standards.

Approval of the financial statements

The financial statements, as indicated above, were approved by the board of directors on 28th Sept. 2016 and were signed on its behalf by:

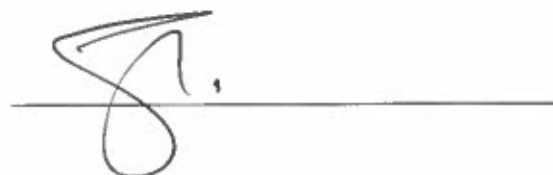
Mr. Patrick Byabakama Kaberenge :
Chairman



Mr. Richard Byarugaba :
Managing Director



Mr. Richard Wejuli Wabwire :
Corporation Secretary



Date : 30th September 2016

INDEPENDENT AUDITORS REPORT TO THE AUDITOR GENERAL FOR THE YEAR ENDED 30 JUNE 2016

Under the terms of section 32(2) of the National Social Security Fund (NSSF) Act (CAP 222), the Auditor General is required to audit the financial statements of the Fund. In accordance with the provisions of the same section, the Auditor General appointed M/s KPMG Certified Public Accountants to audit the financial statements on his behalf and report to him to enable him report to the Parliament of Uganda in accordance with Article 163 (4) of The Constitution of the Republic of Uganda.

Report on the financial statements

We have audited the financial statements of National Social Security Fund ("the Fund"), which comprise the Statement of Net Assets Available for Benefits as at 30 June 2016, the Statements of Changes in Net Assets Available for Benefits, Changes in Members' Funds and Reserves and Cash Flows for the year then ended, and notes to the financial statements which include a summary of significant accounting policies and other explanatory information, as set out on pages 7 to 76.

Directors' responsibility for the financial statements

The Fund's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 about 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 our 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, we consider 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 the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of National Social Security Fund as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITORS REPORT
TO THE AUDITOR GENERAL FOR THE YEAR ENDED 30 JUNE 2016 (Continued)**

Emphasis of Matter

We draw attention to Note 35(b) to the financial statements, which indicates that the Fund is challenging the basis on which the Uganda Revenue Authority (URA) disallowed certain expenses in calculating the Fund's tax assessment during the year ended 30 June 2013. The note also indicates the directors have not recognised any provision for the liability of Ushs 84.4 billion to the URA, as management believes the tax treatment adopted by NSSF is in accordance with the provisions of Section 22(1)(a) and Section 25 of the Income Tax Act. The note gives details of the case and explains the directors have disclosed a contingent liability as the ultimate outcome of the case cannot presently be determined. Our opinion is not qualified in respect of this matter. Our report in the prior year contained an emphasis of matter paragraph in this regard.



KPMG
Certified Public Accountants
P O Box 3509
Kampala, Uganda

Date: 30 September 2016

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 Ushs'000	2015 Ushs'000
COMPREHENSIVE INCOME			
Revenue			
Interest income	5	658,839,465	539,197,465
Rental income	6	11,464,128	10,265,101
Dividend income	7	<u>37,686,334</u>	<u>33,693,725</u>
Total revenue		<u>707,989,927</u>	<u>583,156,291</u>
Other income			
Other operating income	8	29,878,904	169,776,564
Fair value (loss)/gain from equity investments at fair value through profit or loss	18	<u>(74,373,213)</u>	<u>48,438,003</u>
Total other income		<u>(44,494,309)</u>	<u>218,214,567</u>
Expenditure			
Administrative expenses	9	(59,759,558)	(52,074,535)
Other operating expenses	10	(15,643,520)	(13,150,183)
Amortisation of intangible assets	25	(1,477,359)	(1,724,404)
Depreciation of property and equipment	26	<u>(3,161,968)</u>	<u>(1,859,644)</u>
Total expenditure		<u>(80,042,405)</u>	<u>(68,808,766)</u>
Share of results from associates	21	<u>10,321,517</u>	<u>5,654,082</u>
Surplus from operations		593,774,730	738,216,174
Interest transfer to members	31	<u>(597,285,997)</u>	<u>(521,769,156)</u>
(Loss)/Surplus before tax	11	(3,511,267)	216,447,018
Income tax expense (withholding tax as final tax)	12(a)	<u>(102,331,080)</u>	<u>(90,433,851)</u>
(Loss)/Surplus for the year		<u>(105,842,347)</u>	<u>126,013,167</u>
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		-	-
<i>Items not to be reclassified to profit or loss in subsequent years:</i>		-	-
Total comprehensive (loss)/ income for the year, net of tax		<u>(105,842,347)</u>	<u>126,013,167</u>

The accounting policies and notes on pages 12 to 76 form an integral part of these financial statements.

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
(CONTINUED)
AS AT 30 JUNE 2016**

	Note	2016 Ushs'000	2015 Ushs'000
Total comprehensive income for the year, net of tax		(105,842,347)	126,013,167
DEALINGS WITH MEMBERS			
Contributions received during the year	31	785,498,304	688,095,082
Benefits paid	31	<u>(238,797,166)</u>	<u>(186,609,416)</u>
Net dealings with members		<u>546,701,138</u>	<u>501,485,666</u>
Net increase in scheme funds during the year		<u>440,858,791</u>	<u>627,498,833</u>

The accounting policies and notes on pages 12 to 76 form an integral part of these financial statements.

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
AS AT 30 JUNE 2016**

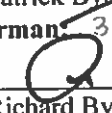
	Note	30 June 2016 Ushs'000	30 June 2015 Ushs'000 Restated	30 June 2014 Ushs'000 Restated
ASSETS				
Cash and bank balances	13	27,800,138	14,064,337	14,634,466
Deposits with commercial banks	14	274,062,186	251,067,909	682,070,805
Equity securities held-for-trading	15	84,863,191	90,134,171	73,318,553
Trade and other receivables	16	42,847,324	26,923,918	22,467,276
Tax deposit receivable	12 (c)	25,323,522	25,323,522	-
Investments in securities held-to-maturity	17	4,635,745,420	3,839,928,145	2,773,263,020
Equity investments at fair value through profit or loss	18	901,377,895	734,270,133	251,274,475
Loans and advances	19	30,547,888	34,464,037	39,325,612
Inventories (Office supplies)	20	-	853	2,910
Investments in associates	21	80,319,762	74,892,790	71,495,208
Capital work-in-progress	23	314,799,944	308,911,107	250,241,953
Investment properties	24	139,345,000	135,873,682	193,710,608
Intangible assets	25	4,400,244	5,857,796	7,312,122
Property and equipment	26	11,649,369	8,422,563	4,356,884
Tax claimable	28	12,065,756	-	-
Finance lease	27	650,000	256,289	-
Total Assets		6,585,797,639	5,550,391,252	4,383,473,892
LIABILITIES				
Withholding tax payable	28	-	1,208,340	971,228
Other payables	29	23,329,307	27,011,883	24,858,304
Provisions for litigation	30	12,277,112	11,852,903	9,420,196
Total Liabilities		35,606,419	40,073,126	35,249,728
NET ASSETS		6,550,191,220	5,510,318,126	4,348,224,164
MEMBERS' FUNDS AND RESERVES				
Accumulated members' funds	31	6,303,685,942	5,166,761,915	4,147,285,690
Reserve account	32	80,107,536	71,316,122	50,149,442
Accumulated surplus		166,397,742	272,240,089	150,789,032
TOTAL MEMBERS' FUNDS AND RESERVES		6,550,191,220	5,510,318,126	4,348,224,164

These financial statements were approved for issue by the Board of Directors on 28th Sept 2016
and signed on its behalf by:


Mr. Patrick Byabakama Kaberenge
Chairman 30th September 2016


Mr. Richard Wejuli Wabwire
Corporation Secretary:

30th September 2016


Mr. Richard Byarugaba
Managing Director:
30th September 2016

The accounting policies and notes on pages 12 to 76 form an integral part of these financial statements.

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF CHANGES IN MEMBERS' FUNDS AND RESERVES
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	Reserve Account	Accumulated Members' Funds	Accumulated Surplus	Total
		Ushs 000	Ushs 000	Ushs 000	Ushs 000
At 1 July 2014 (As previously reported)		50,149,442	4,147,285,690	170,261,219	4,367,696,351
Surplus for the year		-	-	126,013,167	126,013,167
Special contributions	32(a)	8,634,140	-	-	8,634,140
Transfer of interest recovered on arrears, fines and penalties received	32(a)	4,562,110	-	(4,562,110)	-
Members' contributions received	31	-	688,095,082	-	688,095,082
Benefits paid to members	31	-	(186,609,416)	-	(186,609,416)
Interest allocated to members arising from arrears recovered	32	(1,902,042)	1,902,042	-	-
Provision for interest to members	31	9,872,472	516,088,517	-	525,960,989
At 30 June 2015 (As previously reported)		71,316,122	5,166,761,915	291,712,276	5,529,790,313
Prior year adjustment	41	-	-	(19,472,187)	(19,472,187)
At 30 June 2015 (Restated)		71,316,122	5,166,761,915	272,240,089	5,510,318,126
At 1 July 2015		71,316,122	5,166,761,915	272,240,089	5,510,318,126
Surplus for the year		-	-	(105,842,347)	(105,842,347)
Special contributions received	32(a)	4,913,165	-	-	4,913,165
Transfer of interest recovered on arrears, fines and penalties received	32(a)	(360,942)	-	-	(360,942)
Members' contributions received	31	-	785,498,304	-	785,498,304
Benefits paid to members	31	-	(238,797,166)	-	(238,797,166)
Interest allocated to members arising from arrears recovered	32	-	(15,916,775)	-	(15,916,775)
Provision for interest to members	31	4,239,191	606,139,664	-	610,378,855
At 30 June 2016		80,107,536	6,303,685,942	166,397,742	6,550,191,220

The accounting policies and notes on pages 12 to 76 form an integral part of the financial statements.

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 Ushs '000	2015 Ushs '000
Net cash used in operating activities	33	(70,902,122)	(38,015,463)
Investing activities			
Purchase of software	25	(19,807)	(270,079)
Purchase of property and equipment	26	(6,389,018)	(4,827,044)
Proceeds from sale of fixed assets		614,021	224,946
Purchase of investment properties	24	-	(3,810,383)
Proceeds from disposal of investment properties		-	2,505,000
Purchase of capital work-in-progress	23	(3,535,771)	(2,584,704)
Purchase of equity investments at fair value through profit or loss		(231,562,872)	(380,034,368)
Purchase of equity investments held for trading		(9,310,293)	(920,750)
Proceeds from disposal of equity investments held for trading		138,484	164,458
Purchase of held to maturity investments		(968,333,554)	(1,318,746,814)
Maturities of held to maturity investments		227,479,830	358,933,563
Purchase of deposits with commercial banks		(573,670,125)	(908,058,993)
Maturities of deposits with commercial banks		555,660,045	1,319,057,666
Maturities of loans and advances		8,385,483	9,621,361
Interest received from held to maturity investments		500,664,480	362,772,044
Interest received from commercial bank deposits		34,589,299	92,320,147
Dividends received		489,739	979,478
Net cash flows used in investing activities		(464,800,059)	(472,674,472)
Financing activities			
Benefits paid out to members	31	(238,797,166)	(186,609,416)
Contributions received from members	31	785,498,304	688,095,082
Interest recovered on arrears		(2,176,321)	-
Special contributions	32	4,913,165	8,634,140
Net cash flows from financing activities		549,437,982	510,119,806
Increase/(decrease) in cash and cash equivalents		13,735,801	(570,129)
Cash and cash equivalents at 1 July		14,064,337	14,634,466
Cash and cash equivalents at 30 June	13	<u>27,800,138</u>	<u>14,064,337</u>

The accounting policies and notes on pages 11 to 76 form an integral part of these financial statements.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

1. FUND INFORMATION

National Social Security Fund (the "Fund") is a corporate body domiciled in Uganda. The Fund is primarily involved in collection of contributions and investment of the contributions in a professional manner to earn a good return to meet the benefit obligations to its members as stipulated under the National Social Security Fund (NSSF) Act (Cap 222).

The Fund is a defined contribution scheme which covers all employees in the private sector, with a total contribution of 15% of the employees' gross salary (employer contribution 10%, employee contribution 5%).

During the year to 30 June 2016, 16,626 beneficiaries were paid (2015: 15, 589).

According to the NSSF Act (Cap. 19), the benefits paid out of the Fund are:

- Age Benefit - payable to a member who has reached the retirement age of 55 years;
- Withdrawal Benefit - payable to a member who has attained the age of 50 years, and is out of regular employment for one year;
- Invalidity benefit - payable to a member who because of illness or any occurrence develops incapacity to engage in gainful employment;
- Survivors Benefit – Payable to the dependant survivor(s) in the unfortunate event of member's death; and
- Emigration Grant – Payable to a member (Ugandan or Expatriate) who is leaving the country for good. Such a member must have been contributing for a minimum of four financial years; else will have to forfeit the 10% employer contribution.

Government is currently implementing policy reforms whose objective is a liberalised and regulated retirement benefits sector. These reforms have entailed the enactment of the Retirement Benefits Regulatory Authority Act 2011, which came into force in September 2011. The new law established a Retirement Benefits Regulatory Authority [RBRA] whose function is to regulate all retirement schemes including NSSF. Like all other schemes, the Fund has an operating license, which has since been renewed until June 2016.

Government also tabled the Retirement Benefits Sector Liberalisation Bill 2011 before Parliament. The objective of the bill is, among others, to repeal the National Social Security Fund Act. There is ongoing debate in parliament including provisions to amend (not repeal) the NSSF Act, and to permit NSSF continue as a national scheme receiving a substantial portion of the mandatory contribution.

The Fund is also listed in Class 1 of the Public Enterprises Reform and Divestiture Act as an entity in which the Government of Uganda (GoU) shall retain 100% control and/or ownership. Consequently, management's expectation is that government will do all it can to ensure that the Fund continues to exist in the new liberalised and regulated framework.

The Board of Directors assessed the implications of the above developments and determined that they do not have an effect on the Fund's going concern in the foreseeable future.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

2. BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) to meet the requirements of the National Social Security Fund Act (Cap 222) of Uganda.

The financial statements have been prepared on a historical cost basis except for some financial assets (equity investments held-for-trading or designated at fair value through profit or loss), and investment properties that have been measured at fair value. The financial statements are presented in Uganda Shillings (Ushs), which is the Fund's functional currency and all values are rounded off to the nearest thousand (Ushs 000), except where otherwise indicated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(a) Investment in Associates

The Fund's investments in its associates are accounted for using the equity method. An associate is an entity in which the Fund has significant influence but not control over the financial and operating policies. Significant influence is presumed to exist when the Fund holds 20 to 50 percent of the voting power of another entity and when the Fund is represented on the Board of the Investee Company for holdings below 20 percent. Under the equity method, the investment in the associates is carried in the statement of financial position at cost plus post acquisition changes in the Fund's share of net assets of the associate.

The statement of comprehensive income reflects the share of the results of operations of the associate. The share of the results of an associate is shown on the face of the statement of comprehensive income. These are the results attributable to equity holders of the associate and therefore the results after tax and non-controlling interests in the subsidiaries of the associate. Where necessary, adjustments are made to bring the accounting policies of the associates in line with those of the Fund.

(b) Foreign currencies

Transactions in foreign currencies during the year are translated into Uganda Shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Uganda Shillings at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Uganda Shillings at the date when the fair value was determined. Foreign currency gains and losses arising from translation are recognised in the statement of comprehensive income.

(c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognised:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Interest income

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

(ii) Dividends

Dividend income is recognised when the right to receive dividends is established.

(iii) Rental income

Rental income from investment properties is recognized in the statement of comprehensive on the straight line basis over the term of the lease.

(iv) Other income

Other income comprises gains less losses related to trading assets and liabilities, and includes gains from disposal of Fund assets and all realised and unrealised foreign exchange differences.

(d) Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Fund determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Fund's financial assets include cash and cash equivalents, trade and other receivables, loans and advances, deposits with commercial banks, investments in government and corporate bonds and equity investments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in surplus or deficit.

Financial assets held for trading

Financial assets held for trading include securities held for trading which are equity investments by fund managers. Financial assets held for trading are carried in the statement of financial position at fair value with changes in fair value recognised in surplus or deficit.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets 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 interest income in the statement of comprehensive income. The losses arising from impairment are recognised in impairment losses in the statement of comprehensive income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Fund has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, 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 interest income in the statement of comprehensive income.

Other receivables

Other receivables are carried at amortised cost which approximates the original invoice amount less provision made for impairment losses. An allowance for impairment of other receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables.

Derecognition

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

- The rights to receive cash flows from the asset have expired.
- The Fund 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 (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund 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 of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. In that case, the Fund 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 Fund has retained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Impairment of financial assets

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in surplus or deficit. 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 finance income in the statement of comprehensive 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 Fund. 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 finance costs in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings measured at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, plus, in the case of loans and borrowings, directly attributable transaction costs.

The Fund's financial liabilities include trade and other payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Trade payables

Trade payables include trade payables and are subsequently measured at amortised cost. Gains and losses on derecognition and amortisation are recognised in surplus or deficit.

Other accounts payable

Other accounts payable are carried at amortised cost, which approximates the consideration to be paid in the future for goods and services received.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(e) Offsetting

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

(f) Fair value of financial instruments

The Fund measures financial instruments such as financial assets, and non-financial assets such as investment properties, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions - Note 4.
- Quantitative disclosures of fair value measurement hierarchy - Note 38
- Financial instruments (including those carried at amortised cost) -Notes 15,17 to 19 and 29

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Fair value of financial instruments (continued)

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction of transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs 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.

The cost of replacing part of an item of property and equipment is recognized in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Fund and its cost can be measured reliably. The carrying value of the replaced part is de-recognised. The cost of day to day servicing of the property and equipment is recognized in surplus or deficit as incurred.

Depreciation is recognized in surplus or deficit and calculated to write off the cost of the property and equipment on a straight line basis over the expected useful lives of the assets concerned. Land is not depreciated.

The estimated depreciation rates for the current and comparative periods are as follows: -

	Percentage
Machinery	20 %
Motor vehicles	20 %
Furniture and equipment	12.5 %
Computer equipment	25%

Management and directors review the depreciation methods, residual value and useful life of an asset at the year end and any change considered to be appropriate is recorded in surplus or deficit as a change in estimates.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying value of property and equipment and recognized net within other income in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset. There are no intangible assets with indefinite useful lives.

Intangible assets are amortised at a rate of 10%.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

(i) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in surplus or deficit in the period in which they arise.

Fair values are evaluated every after two years by an accredited external, independent valuer.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in surplus or deficit in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. When the use of property changes from owner occupied to investment property, the property is re-measured at fair value and reclassified as investment property. Any gain arising on revaluation is recognized through other comprehensive income. Any loss arising on revaluation is recognized through the surplus or deficit.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on first-in-first out principle and includes the expenditure incurred in acquiring the inventory, and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses or the replacement cost as appropriate.

(k) Impairment of non-financial assets

The carrying amounts of the Fund's non-financial assets other than investment properties, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such condition exists, the asset's recoverable amount is estimated and an impairment loss recognised in surplus or deficit whenever the carrying amount of an asset exceeds its recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount that would have been determined net of depreciation or amortization if no impairment loss was recognized.

(l) Employee benefits

(i) Gratuity

The Fund's terms and conditions of employment provide for gratuity to qualifying employees equivalent to 20% of the monthly salary per year of service to the organisation. This employment benefit is accrued on a monthly basis and paid annually in arrears. The provision in the financial statements takes account of service rendered by employees up to the statement of financial position date and is based on the calculated staff benefits payable.

(ii) Staff provident fund

The Fund operates a defined contribution plan for all qualifying employees. The contribution payable to the plan is in proportion to the services rendered to the Fund by the employees and is recorded as an expense under 'staff costs'. Unpaid contributions are recorded as a liability. The Fund also contributes to the plan on behalf of the employees. The Fund's Contributions are charged to the income statement in the year to which they relate.

(m) Provisions

A provision is recognised if, as a result of a past event, the Fund 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.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where the Fund expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

(n) Income tax

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 through other comprehensive income or equity, in which case it is recognised through other comprehensive income or equity.

Current tax is provided for on the surplus for the year adjusted in accordance with the Ugandan 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 tax is provided for 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. In respect of temporary differences associated with investments in subsidiaries and associates, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred 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. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost subsequent to initial recognition. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the reporting date and include cash and bank balances.

(q) Capital work-in-progress

The ongoing construction/installation of capital projects are recorded at the cost to date or valuation and are only transferred into the relevant assets categories once completed and commissioned. No depreciation is computed on capital work-in-progress as these assets are not yet available for use. However, an expected impairment loss on capital work-in-progress is recognized immediately in surplus or deficit.

(r) Members' funds

The Fund is funded through contributions from members and investment income.

(i) Contributions from members

Contributions from employees remitted by the employers are recognized on a cash basis. Contributions due but not yet received at the end of the financial year are not accrued but accounted for and recognized in subsequent years when received.

(ii) Benefit payments to members

Benefits to members are accounted for on a cash basis. Benefit payments made but not collected by members are written back in the cash book and no liability thereof recognized in the financial statements.

(iii) Interest payments to members

Interest payable on members' accumulated contributions is calculated based on the opening accumulated contributions (standard contribution plus interest) less benefits paid during the year. The effective interest rate used to compute interest accrued to members is approved by the Minister of Finance, Planning & Economic Development in accordance with Section 35 (1) and (2) of the National Social Security Fund Act.

(s) Reserve account

The reserve account is credited with contributions that cannot be allocated to members, special contributions by non-eligible employees and amounts recovered in form of fines and penalties from employers that fail to remit members funds as stipulated in the National Social Security Fund Act. The special contributions are credited directly to the reserve account while the fines and penalties are recognised through the statement of comprehensive income and then appropriated from the accumulated surplus/deficit to the reserve account. Transfers from the reserve account require the approval of the Minister of Finance in accordance with the NSSF Act.

(t) Leases

Leases, where a significant portion of the risks and rewards of ownership are transferred to the Fund are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for adoption of IAS 26 presentation and disclosure during the year. The adoption of IAS 26 disclosures resulted in renaming the primary statements and additional disclosures on the statement of changes in Net Assets Available for Benefits.

Adoption of new and revised standards

Changes resulting from the following new or revised standards and interpretations, amendments to existing standards and interpretations and improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Fund.

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. The Group's defined benefit plan meets these requirements and consequently the Group intends to apply this amendment and will recognise the contributions as reduction of the service costs in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 with early adoption permitted.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Fund are set out below. The Fund does not plan to adopt these standards early. These will be adopted in the period that they become mandatory or/ and effective.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption permitted. The adoption of these changes will not have a material impact on the financial statements of the Fund.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The adoption of these changes will not have a material impact on the financial statements of the Fund.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The adoption of these changes will not have a material impact on the financial statements of the Fund.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow an entity to apply the equity method in its separate financial statements to account for its investments in subsidiaries, associates and joint ventures.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The Fund is still assessing the potential impact this standard will have on recognition and disclosures.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
(Amendments to IFRS 10 and IAS 28)***

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 *Business Combinations*. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The Fund is still assessing the potential impact this standard will have on recognition and disclosures.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments also clarify presentation principles applicable to the order of notes, OCI of equity accounted investees and subtotals presented in the statement of financial position and statement of profit or loss and other comprehensive income.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted. The Fund is still assessing the potential impact this standard will have on recognition and disclosures.

IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have a significant impact on the Fund, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Fund is still assessing the potential impact this standard will have on recognition and disclosures.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 *Consolidated Financial Statements* clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The amendment to IFRS 12 *Disclosure of Interests in Other Entities* requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 *Investments in Associates and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

IFRS 9 *Financial Instruments*

On 24 July 2014, the IASB issued the final IFRS 9 *Financial Instruments* Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

The Fund is assessing the potential impact on its financial statements resulting from the application of IFRS 9

IFRS 16: *Leases*

On 13 January 2016 the IASB issued IFRS 16 *Leases*, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.
- (b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

- (a) short-term leases (i.e. leases of 12 months or less) and;
- (b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied).

The Fund is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

(u) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes from a prior year adjustment as detailed under Note 41.

4. DETERMINATION OF FAIR VALUE

The fair value of both financial/non-financial assets and fair values have been determined for measurement and/or disclosure purposes based on the methods below.

(i) Investment properties

The Fund uses an external independent valuation company with recognized professional qualification experience and values the Fund's investment properties after every two years (previously on an annual basis). The fair values are based on the market conditions being the price that would be received to sell an asset in an orderly transaction between market participants on the measurement date. In the absence of an active price in an active market, the values are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. The yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

(ii) Investment in debt and equity securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available for sale is determined by reference to their quoted bid price at the reporting date. The fair value-of-held to maturity investments is determined for disclosure purposes only.

(iii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of trade and other receivables is determined at initial recognition and for disclosure purposes only.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

5. INTEREST INCOME

	2016	2015
	Ushs 000	Ushs 000
Interest income on short term deposits with banks	46,581,639	83,002,603
Interest income on government bonds: held-to-maturity	589,483,625	429,310,880
Interest income on call deposits made by fund managers	-	11,554
Interest income on corporate bonds: held-to-maturity	18,452,869	18,861,854
Interest income on loans measured at amortized cost	<u>4,321,332</u>	<u>8,010,574</u>
	<u>658,839,465</u>	<u>539,197,465</u>

6. RENTAL INCOME

	2016	2015
	Ushs 000	Ushs 000
Workers House	6,809,322	5,959,849
Social Security House	2,353,728	2,055,783
Service Charge	1,525,002	1,645,268
Others	<u>776,076</u>	<u>604,201</u>
	<u>11,464,128</u>	<u>10,265,101</u>

This relates to rental income earned from investment properties (refer to Note 24) owned by the Fund, and rented out to tenants for commercial purposes. Tenants are charged rental fees based on the square metres occupied at agreed rental charges as specified in the tenancy agreements.

7. DIVIDEND INCOME

	2016	2015
	Ushs 000	Ushs 000
Stanbic Bank Uganda Limited	817,546	1,740,891
Bank of Baroda (Uganda) Limited	124,891	124,891
New Vision Printing and Publishing Company Limited	750,000	525,000
DFCU Limited	640,767	10,277,333
Safaricom Limited	6,215,193	4,993,970
Umeme Limited	8,650,212	6,696,788
Equity Group Holdings Ltd	6,332,775	117,931
Kenya Commercial Bank (KCB)	4,199,969	2,348,672
Bank of Kigali	2,275,561	3,109,256
Tanzania Breweries	3,616,382	-
East Africa Breweries	1,729,595	-
Eastern and Southern African Trade and Development Bank (PTA Bank)	96,395	-
Other dividend income earned from fund managers	<u>2,237,048</u>	<u>3,758,993</u>
	<u>37,686,334</u>	<u>33,693,725</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

8. OTHER OPERATING INCOME

	2016	2015
	Ushs 000	Ushs 000
Gain on disposal of property and equipment	613,778	216,658
Loss on disposal of investment property	-	(595,000)
Clearance fees	72,062	9,362
Miscellaneous income	1,490,777	132,920
Fair value (loss)/gain on equity investments held for trading	(14,048,804)	14,709,202
Gain on disposal of equity investments held for trading	22,349	-
Notional income/(expense) on staff loans	174,171	(80,944)
Fines and penalties from defaulting employers: Note 32(b)	429,872	4,562,110
Fair value gain on investment property	6,225,029	5,900,000
Fair value loss on capital work in progress	-	(7,000,000)
Foreign exchange gains	<u>34,899,670</u>	<u>151,922,256</u>
	<u>29,878,904</u>	<u>169,776,564</u>

Miscellaneous income is majorly made up of fees from sale of bid documents and insurance claims.
Foreign exchange gains arose from appreciation of foreign currencies against the Uganda Shilling which affected monetary foreign denominated assets and liabilities.

9. ADMINISTRATIVE EXPENSES

	2016	2015
	Ushs 000	Ushs 000
Staff costs (Note 9a)	38,347,611	30,620,840
Staff medical insurance	936,881	810,189
General staff and training expenses	3,566,701	1,951,932
Advertising and promotion	2,434,619	5,038,131
Auditors' remuneration	120,592	152,071
Bank charges and commission	13,648	15,435
Board expenses	572,584	356,159
Cleaning expenses	283,685	162,779
IT connectivity and internet	565,954	581,728
Directors' allowances	548,950	505,945
Professional fees	1,041,491	3,180,402
Motor vehicle fuel costs, maintenance & repairs	682,010	619,569
Printing and stationery	486,985	606,856
Subscriptions	275,101	243,560
Telephone, fax, telex and post	665,285	505,248
Travel and subsistence costs	2,267,584	2,192,803
Commission and brokerage fees	2,024,093	4,514,845
Uganda Retirement Benefits Regulatory Authority annual levy	4,604,932	-
Other administrative expenses	<u>320,852</u>	<u>16,043</u>
	<u>59,759,558</u>	<u>52,074,535</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

9. ADMINISTRATIVE EXPENSES (CONTINUED)

	2016	2015
	Ushs 000	Ushs 000
a) Staff costs		
Leave pay	530,758	372,410
Overtime expenses	102,899	122,149
Salaries and wages	31,444,104	25,080,566
Social security contributions	3,327,093	2,662,914
Contributions to the staff provident fund	2,358,441	1,870,104
Gratuity	<u>584,316</u>	<u>512,697</u>
	<u>38,347,611</u>	<u>30,620,840</u>

10. OTHER OPERATING EXPENSES

	2016	2015
	Ushs 000	Ushs 000
Rent and rates	4,241,434	3,778,012
Electricity and water	1,552,840	1,438,511
Repairs and maintenance	5,545,840	2,339,465
Insurance	1,379,361	1,132,545
Security expenses	1,290,443	702,665
Research and library expenses	571,938	485,637
Fund manager expenses	56,049	24,712
Impairment loss provision for bad debts	<u>1,005,615</u>	<u>3,248,636</u>
	<u>15,643,520</u>	<u>13,150,183</u>
a) Impairment loss provision for bad debts		
Loan due from Uganda Clays Limited (Note 19)	-	3,248,636
Rent receivable (Note 16)	<u>1,005,615</u>	<u>-</u>
	<u>1,005,615</u>	<u>3,248,636</u>

11. SURPLUS BEFORE TAX

Surplus before tax is arrived at after charging/(crediting):

	2016	2015
	Ushs 000	Ushs 000
Amortisation of intangible assets (Note 25)	1,477,359	1,724,404
Depreciation of property and equipment (Note 26)	3,161,969	1,859,644
Gain on disposal of property and equipment	(613,778)	(216,658)
Loss on disposal of investment property	-	595,000
Auditors' remuneration	120,592	152,071
Directors' emoluments	548,950	505,945
Staff costs	38,347,611	30,620,840
Unrealised foreign exchange gains	(29,438,000)	(149,744,943)
Provision for bad and doubtful debts	-	3,248,636
Fair value loss/(gains) from equity instruments at FVTPL	74,373,212	(48,438,003)
Fair value loss/(gains) from equity instruments held for trading	14,048,450	(14,925,242)
Fair value (gain)/loss on investment property	(5,831,318)	5,900,000
Fair value loss on capital work in progress	<u>-</u>	<u>(7,000,000)</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

12. TAX

a) Income tax expense

The income tax expense relates to withholding tax deducted at source from interest on investments in treasury bills and bonds as a final tax as per Income Tax Act section 122(a). No other income tax is charged because the Fund had accumulated trading losses amounting to Ushs 819 billion as at 30 June 2016 (2015: Ushs 702 billion).

The tax on the Fund's surplus after interest to member's funds differs from the theoretical amount that would arise using the basic rate of 30% as follows:

	2016 Ushs 000	2015 Ushs 000
(Loss)/ Surplus from operations before tax	<u>(3,511,267)</u>	<u>216,447,018</u>
Tax calculated at 30%	(1,053,380)	64,934,105
Tax effect of;		
Expenses related to income taxed at source	11,164,257	40,901,067
Interest expense transferred to members' funds	96,985,999	45,489,800
Income taxed at source	(156,031,789)	(144,480,235)
Non- taxable income	(3,096,455)	(2,646,776)
Other non-deductible expenses	386,118	395,170
Unrecognised deferred tax credit	51,645,250	(4,593,131)
Unrecoverable withholding tax deducted at source	<u>102,331,080</u>	<u>90,433,851</u>
Statement of comprehensive income tax charge	<u>102,331,080</u>	<u>90,433,851</u>

b) Deferred income tax asset

Deferred income tax is calculated on all temporary differences under the liability method using the principal tax rate of 30% (2015: 30%).

	At 30 June 2015 Ushs 000	Movement for the year Ushs 000	At 30 June 2016 Ushs 000
Deferred tax assets			
Unrealized foreign exchange losses	(29,346,847)	(5,176,362)	(34,523,209)
Provision for impairment loss on trade and other receivables	(8,706,166)	(234,380)	(8,940,546)
Bonus provision	(1,175,910)	(313,801)	(1,489,711)
Tax losses carried forward	<u>(210,693,141)</u>	<u>(35,010,769)</u>	<u>(245,703,910)</u>
	<u>(249,922,064)</u>	<u>(40,735,312)</u>	<u>(290,657,376)</u>
Deferred tax liabilities			
Unrealized foreign exchange gains	70,413,274	14,007,762	84,421,036
Fair value gains on investment properties	67,323,577	1,867,509	69,191,086
Fair value changes on equity instruments	61,557,241	(22,311,964)	39,245,277
Unrealised gains in investments with fund managers	7,916,697	(4,214,641)	3,702,056
Accelerated depreciation	<u>2,360,355</u>	<u>(258,604)</u>	<u>2,101,751</u>
	<u>209,571,144</u>	<u>(10,909,938)</u>	<u>198,661,206</u>
Net income deferred tax asset	<u>(40,350,920)</u>	<u>(51,645,250)</u>	<u>(91,996,170)</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

12. TAX (CONTINUED)

	At 30 June 2014 Ushs 000	Movement for the year Ushs 000	At 30 June 2015 Ushs 000
Deferred tax assets			
Unrealized foreign exchange losses	(8,690,546)	(20,656,301)	(29,346,847)
Provision for impairment loss on trade and other receivables	(7,734,749)	(971,417)	(8,706,166)
Bonus provision	-	(1,175,910)	(1,175,910)
Tax losses carried forward	(154,100,650)	(56,592,491)	(210,693,141)
	<u>(170,525,945)</u>	<u>(79,396,119)</u>	<u>(249,922,064)</u>
Deferred tax liabilities			
Unrealized foreign exchange gains	4,833,490	65,579,784	70,413,274
Fair value gains on investment properties	67,653,577	(330,000)	67,323,577
Fair value changes on equity instruments	47,025,840	14,531,401	61,557,241
Unrealised gains in investments with fund managers	3,503,936	4,412,761	7,916,697
Accelerated depreciation	<u>2,565,051</u>	<u>(204,696)</u>	<u>2,360,355</u>
	<u>125,581,894</u>	<u>83,989,250</u>	<u>209,571,144</u>
Net income deferred tax asset	<u>(44,944,051)</u>	<u>4,593,131</u>	<u>(40,350,920)</u>

The net income deferred tax asset of Ushs 92 billion (2015: Ushs (40.3) billion) has not been recognised in these financial statements because it is not probable that future taxable profit will be available against which the Fund can use the benefits therefrom. Despite the Fund making surplus earnings, Section 22(1) and 25 of the Income Tax Act allows a deduction of interest incurred during the year of income in respect of a debt obligation. In addition, the Fund obtained a ruling from Uganda Revenue Authority in 2001 advising that interest paid to members is tax deductible. The Fund follows this ruling when preparing income tax computations and it is unlikely that the Fund will have taxable profits against which the deferred income tax asset can be utilised.

c) Tax deposit receivable

	2016 Ushs 000	2015 Ushs 000
Tax deposit receivable	<u>25,323,522</u>	<u>25,323,522</u>

As disclosed under Note 35(b), the Fund received an assessment for tax from URA on 15 April 2013 which it disputed. In accordance with the Income Tax Act the Fund was required to pay 30% of the assessed tax before proceeding to court. The directors believe that this amount is recoverable as the deposit will either be refunded in the event of a successful outcome, or applied toward the tax obligation in the event that the fund is not successful in its court case.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

13. CASH AND BANK BALANCES

	2016	2015
	Ushs 000	Ushs 000
Barclays Bank of Uganda Limited	1,198,851	151,572
Citibank Uganda Limited	322,767	1,646,716
Housing Finance Uganda Limited (Note 34)	15,758	22,816
Stanbic Bank Uganda Limited	14,424,123	2,866,410
Standard Chartered Bank Uganda Limited	9,269,450	5,063,290
KCB Rwand Francs Custodian	10,234	3,044,034
Imperial Bank Limited	33,271	11,957
Ecobank Uganda Limited	2,183	199,195
Bank of Africa	113,745	78,104
Crane Bank Limited	427,003	141,045
Centenary Bank	552,387	444,616
DFCU Bank Limited	466,573	37,237
United Bank for Africa	58,551	217,617
Orient Bank Limited	182,245	15,906
Global Trust Bank	-	5,474
Tropical Bank -collection account	50,036	353
Bank of Baroda Uganda Limited-collection account	42,335	46,148
Post Bank Collection A/C	123,727	-
Finance Trust Bank Collection A/C	48,057	-
Diamond Trust Collection A/C	427,976	-
NC Bank Collection A/C	11,692	-
Cash at hand	19,174	71,847
	<u>27,800,138</u>	<u>14,064,337</u>

Collecting banks are required to transfer amounts collected at the end of every week to the Fund's custodian Standard Chartered Bank. There are no transfer charges and the banks do not pay interest on amounts held to the Fund except for Standard Chartered Bank, Citibank and Stanbic Bank which pay interest at the rates of 7%, 5% and 1% respectively. The fair value of the cash and bank balances is equal to its carrying amount.

For the purpose of the statement of cash flows, cash and cash equivalents comprise of the above cash and bank balances.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

14. DEPOSITS WITH COMMERCIAL BANKS

	2016 % in Class	2015 % in Class	2016 Ushs 000	2015 Ushs 000
Barclays Bank of Uganda Limited	4.6	5.0	12,523,501	12,519,360
Bank of Baroda Uganda Limited	6.6	8.9	17,973,214	22,261,186
Post Bank Uganda Limited	3.1	4.2	8,454,169	10,573,925
Crane Bank Limited	29.6	36.3	81,129,254	91,173,646
DFCU Bank Limited	2.1	10.7	5,711,747	26,917,918
Housing Finance Bank Limited (Note 34)	8.6	-	23,482,985	-
Orient Bank Limited	5.8	10.2	15,938,871	25,521,721
Standard Chartered Bank Uganda Limited	29.3	16.9	80,409,006	42,359,829
Commercial Bank of Africa	1.2	-	3,161,820	-
Finca Uganda Limited	5.9	2.5	16,190,494	6,237,297
Uganda Finance Trust Limited	1.8	4.1	4,966,525	10,413,148
Guarantee Trust Bank	1.5	1.2	4,120,600	3,089,879
	<u>100</u>	<u>100</u>	<u>274,062,186</u>	<u>251,067,909</u>

The deposits with commercial banks are analysed as follows:

Amounts due within three (3) months	17,150,144	35,047,004
Amounts due after three (3) months	<u>256,912,042</u>	<u>216,020,905</u>
	<u>274,062,186</u>	<u>251,067,909</u>

The change in the bank deposits during the year was as follows;

	2016 Ushs 000	2015 Ushs 000
At 1 July	251,067,909	682,070,805
New placements / deposits	573,670,125	908,058,993
Maturities	(555,660,045)	(1,319,057,666)
Interest accrued	39,573,496	72,154,895
Interest received	(34,589,299)	(92,320,147)
Foreign exchange gains	-	161,029
At 30 June	<u>274,062,186</u>	<u>251,067,909</u>

The deposits are carried at amortised cost and made for varying periods of between 1 and 365 days depending on the cash requirements of the Fund. The weighted average effective interest rate on deposits with commercial banks as at 30 June 2016 was 17.95% (2015: 15.55%).

15. EQUITY SECURITIES HELD-FOR-TRADING

	2016 Ushs 000	2015 Ushs 000
STANLIB Uganda Ltd	-	43,952,171
GenAfrica	4,816,640	-
Pinebridge Investments	<u>80,046,551</u>	<u>46,182,000</u>
Total	<u>84,863,191</u>	<u>90,134,171</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

15. EQUITY SECURITIES HELD-FOR-TRADING (CONTINUED)

The investments in securities held-for-trading are equity investments managed by the Fund Managers; GenAfrica and Pinebridge Investments. The Fund Managers have the mandate to make investments at their discretion but in compliance with the Fund's investment policy.

	% in class 2016	% in class 2015	Number of Shares Held		Market Value	
			2016	2015	2016 Ushs'000	2015 Ushs'000
Uganda Securities Exchange						
Stanbic Bank (U) Ltd	14.6	25.7	12,525,000	94,758,530	1,778,550	3,127,032
DFCU Limited	35.8	40.4	5,435,580	5,435,580	4,348,464	4,902,893
New Vision Group	10.0	10.8	2,185,857	2,185,857	1,213,151	1,311,514
Umeme Ltd	23.9	8.3	111,821,230	2,143,164	290,735	1,007,287
Uganda Clays Limited	1.2	1.4	9,575,568	9,575,568	143,634	172,360
Bank Of Baroda	14.5	13.4	3,529,364	12,525,000	1,764,681	1,628,250
	<u>100</u>	<u>100</u>			<u>9,539,215</u>	<u>12,149,336</u>
Nairobi Stock Exchange						
Athi River Mining	1.9	4.10	1,026,025	1,026,025	1,141,721	2,638,510
Bamburi Cement Ltd	4.6	3.80	460,745	460,745	2,753,864	2,432,882
Barclays Bank Kenya Ltd	2.7	2.50	4,790,000	3,000,800	1,599,038	1,599,952
BAT Kenya Ltd	13.7	11.30	283,700	283,700	8,237,548	7,208,040
Britam Holdings Ltd	2.2	1.70	2,700,000	1,550,000	1,333,227	1,089,495
Centum Investments (ICDC)	1.8	2.50	720,690	720,690	1,102,690	1,618,562
CFC Stanbic Holdings	3.6	4.70	773,000	773,000	2,150,412	3,021,510
Co-operative Bank of Kenya Ltd	3.1	3.00	2,865,387	2,615,386	1,847,871	1,950,449
Diamond Trust Bank Kenya Ltd	8.2	10.30	853,475	853,475	4,949,349	6,613,614
East African Breweries Ltd	12.7	11.70	749,466	719,466	7,620,259	7,499,348
Equity Group Holdings Limited	8.0	6.90	3,232,042	2,732,042	4,844,339	4,449,596
I&M Holdings Ltd	2.2	1.90	299,400	299,400	1,329,994	1,201,095
KenolKobil Ltd	0.0	0.20	0	400,000	0	115,893
Kenya Airways Ltd	0.4	0.60	1,428,000	1,428,000	216,008	359,878
Kenya Commercial Bank	7.2	7.80	3,175,974	2,650,974	4,330,142	4,999,284
Kenya Power & lighting	1.6	2.80	2,830,750	2,830,750	969,594	1,781,054
Nation Media Group	2.7	3.30	310,712	310,712	1,620,696	2,120,073
NIC Bank Limited	3.9	5.20	1,826,587	1,826,589	2,364,838	3,350,688
Safaricom Limited	16.4	11.50	13,000,000	13,000,000	9,848,848	7,332,446
Standard Chartered Bank Kenya Ltd	2.3	2.40	203,317	148,317	1,386,204	1,515,468
TPS Serena Ltd	0.3	0.50	247,013	247,013	180,381	296,434
WPP Scan group ltd	0.7	1.30	565,600	565,600	393,361	829,058
	<u>100</u>	<u>100</u>			<u>60,220,384</u>	<u>64,023,329</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

15. EQUITY SECURITIES HELD-FOR-TRADING (CONTINUED)

Dar es Salaam Stock Exchange

	% in Class	% in Class	Number of shares held		Market Value	
	2016	2015	2016	2015	2016	2015
					Ushs'000	Ushs'000
Tanzania Breweries Ltd	81.2	77.7	460,000	460,000	10,143,535	10,853,424
CRDB Bank Plc	18.8	21.9	4,700,000	4,700,000	2,343,439	3,059,136
CRDB Bank Plc-Rights 6/2015	-	0.4	940,000	940,000	-	48,946
	<u>100</u>	<u>100</u>			<u>12,486,974</u>	<u>13,961,506</u>

The change in held-for-trading investments during the year were as follows;

	2016	2015
	Ushs 000	Ushs 000
As at 1 July	90,134,171	73,318,553
Purchases	9,310,293	920,750
Disposals	(138,483)	(164,458)
Fair value (loss)/gain	(14,048,450)	14,709,202
Foreign exchange (loss)/gain	(394,340)	1,350,124
As at 30 June	<u>84,863,191</u>	<u>90,134,171</u>

The trading prices at the last date of trading for the years ended 30 June 2016 and 2015 were as follows:

	2016			2015		
	Ushs	Kshs	Tshs	Ushs	Kshs	Tshs
Stanbic Bank (U) Ltd	26.00	-	-	33.00	-	-
DFCU Limited	800.00	-	-	902.00	-	-
New Vision Group	555.00	-	-	600.00	-	-
Umeme Ltd	500.00	-	-	470.00	-	-
Uganda Clays Limited	15.00	-	-	18.00	-	-
Bank of Baroda (Uganda)	142.00	-	-	130.00	-	-
British American Tobacco Uganda	-	-	-	8,525.00	-	-
BAT Kenya Ltd	29,036.12	835.00	-	25,407.26	15.55	-
Safaricom Limited	617.23	17.75	-	564.03	-	-
Kenya Commercial Bank	1,173.62	33.75	-	1,885.83	199.00	-
East African Breweries Ltd	9,667.12	278.00	-	10,423.49	226.00	-
Bamburi Cement Ltd	5,911.55	170.00	-	5,280.32	298.00	-
Equity Group Holdings Limited	1,338.79	38.50	-	1,628.67	65.50	-
NIC Bank Limited	1,269.24	36.50	-	1,834.40	18.35	-
Barclays Bank Kenya Ltd	333.83	9.60	-	533.18	42.75	-
Athi River Mining	1,112.76	32.00	-	-	-	-
Nation Media Group	5,216.07	150.00	-	6,823.27	21.75	-
Diamond Trust Bank Kenya Ltd	5,737.68	165.00	-	7,749.04	114.00	-
Standard Chartered Bank Kenya Ltd	6,780.89	195.00	-	10,217.76	20.50	-
Centum Investments (ICDC)	1,530.05	44.00	-	2,245.85	117.00	-
Kenya Power & lighting	342.52	9.85	-	629.18	741.00	-
WPP Scan group Ltd	695.48	20.00	-	1,465.80	16.45	-
Co-operative Bank Kenya Ltd	561.60	16.15	561.60	745.76	304.00	-
CFC Stanbic Holdings	2,781.90	80.00	2,781.90	3,908.81	154.00	-

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

15. EQUITY SECURITIES HELD-FOR-TRADING (CONTINUED)

	2016			2015		
	Ushs	Kshs	Tshs	Ushs	Kshs	Tshs
Britam Holdings Ltd	493.79	14.20	493.79	702.90	47.50	-
I&M Holdings Ltd	3,825.12	110.00	-	4,011.67	53.50	-
Kenya Airways	151.27	4.35	-	252.02	7.00	-
TPS Serena Ltd	730.25	21.00	-	1,200.07	35.00	-
Kenol Kobil Ltd	-	-	-	289.73	8.00	-
Tanzania Breweries Ltd	22,051.16	-	13,710.0	52.07	-	32
CRDB Bank Plc - Rights 6/2015	-	-	-	650.88	-	400
CRDB Bank Plc	498.60	-	310.00	23,594.40	-	14,500
Tanzania Portland Cement	3,844.08	-	2,390.00	-	-	-

16. TRADE AND OTHER RECEIVABLES

	2016	2015
	Ushs 000	Ushs 000
Prepayments	2,787,499	2,497,552
Staff advances	174,131	195,483
Trade receivables	9,360,131	8,973,910
Contributions receivable	889,095	889,095
Rent receivable	2,993,632	2,181,118
VAT payable	-	(420,194)
Cash advances to investment managers	2,306,268	2,088,201
Deferred staff expense	1,157,665	1,331,386
Dividends receivable	31,627,862	16,855,150
Provisions for impairment loss	<u>(8,448,959)</u>	<u>(7,667,783)</u>
	<u>42,847,324</u>	<u>26,923,918</u>

The staff advances are interest free and repayable within one month through payroll deductions. The contributions receivable relate to cheque payments in previous years (2011) that were not honoured and fully recognised as a receivable.

Provisions for impairment loss is analysed as follows:-

	Ushs 000
At 1 July 2014	7,667,783
Charge for the year	-
Utilised	-
Unused amounts reversed	-
At 30 June 2015	7,667,783
Charge for the year	1,005,615
Utilised	(224,439)
Unused amounts reversed	-
At 30 June 2016	<u>8,448,959</u>

The provision relates to the trade receivable, contributions receivable, and rent receivable accounts. The carrying amount for trade receivables reasonably approximate its fair value due to the short term nature of the receivables.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

17. INVESTMENTS IN SECURITIES HELD-TO-MATURITY

	2016 % in Class	2015 % in Class	2016 Ushs 000	2015 Ushs 000 (Restated)
Treasury bonds	97	96	4,501,133,775	3,701,090,310
Corporate bonds	<u>3</u>	<u>4</u>	<u>134,611,645</u>	<u>138,837,835</u>
	<u>100</u>	<u>100</u>	<u>4,635,745,420</u>	<u>3,839,928,145</u>

The investments are analysed as follows:

Maturing within 3 months	300,692,174	64,998,988
Maturing after 3 months but within 1 year	87,274,294	162,131,426
Maturing after 1 year	<u>4,247,778,952</u>	<u>3,612,797,731</u>
	<u>4,635,745,420</u>	<u>3,839,928,145</u>

The change in Held-to-Maturity investments during the year were as follows;

	2016 Ushs 000	2015 Ushs 000 (Restated)
As at 01 July	3,839,928,145	2,773,263,020
Purchases	968,333,554	1,318,746,814
Maturities	(227,479,830)	(358,933,563)
Interest accrued	538,693,390	371,669,140
Interest received	(500,664,480)	(362,772,044)
Foreign exchange gains	<u>16,934,641</u>	<u>97,954,778</u>
As at 30 June	<u>4,635,745,420</u>	<u>3,839,928,145</u>

The yield rates on the treasury bonds ranged from 10.75% to 21.25% (2015: 10.75% to 21%) and the treasury bonds mature between 1 to 15 years. The interest rates for corporate bonds ranged from 10.97% to 14.7% (2015: 10.94% to 14.7%) and the corporate bonds mature between 1 to 8 years.

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 %in Class	2015 %in Class	2016 % Held	2015 % Held	2016 Ushs 000	2015 Ushs 000
Bank of Baroda (Uganda) Limited	0.8	0.9	2.00	2.00	7,093,788	6,494,313
DFCU Limited	2.6	3.6	5.93	5.93	23,590,126	26,597,868
Safaricom Limited	16.4	18.3	0.60	0.60	147,025,409	134,353,012
Centum Investments Limited	0.7	1.3	0.73	0.73	6,468,000	9,640,400
Stanbic Bank Uganda Limited	3.0	4.7	2.05	2.05	27,251,520	34,588,468
New Vision Printing and Publishing Company Limited	0.9	1.2	19.61	19.61	8,325,000	9,000,000
Bank of Kigali	6.2	7.7	6.32	6.32	55,863,360	56,637,064
Tanzania Breweries Ltd	9.8	1.2	1.19	1.19	88,204,656	82,580,400
Umeme Limited	14.1	14.8	14.27	14.27	126,227,487	108,909,702
Equity Group Holdings Ltd	13.8	20.5	2.50	2.50	123,859,957	150,678,495
East African Breweries Ltd (EABL)	14.0	-			125,672,513	-

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

**18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS
(CONTINUED)**

	2016 %in Class	2015 %in Class	2016 % Held	2015 % Held	2016 Ushs 000	2015 Ushs 000
PTA Bank Shares- Class B	6.2	-	-	-	58,929,849	-
Tanzania Portland Cement(Twiga)	3.1	11.2	-	-	27,812,724	-
British-American Invest Britam	0.4	-	-	-	3,615,515	-
Kenya Commercial Bank	8.0	15.6	2.05	2.05	71,437,991	114,790,411
	<u>100</u>				<u>901,377,895</u>	<u>734,270,133</u>

All the above equity investments are traded on the Uganda Security Exchange (USE) except for Safaricom, KCB, and Equity Group which are traded on the Nairobi Stock Exchange (NSE), Tanzania Breweries which is traded on the Dar es Salaam Stock Exchange (DSE) and Bank of Kigali which is traded on the Rwanda Stock Exchange (RSE). The trading prices at the last date of trading for the years ended 30 June 2016 and 2015 were as follows:

	2016				2015			
	Ushs	Kshs	Tshs	Rwf	Ushs	Kshs	Tshs	Rwf
Bank of Baroda (Uganda) Ltd	142.00	-	-	-	130.00	-	-	-
DFCU Limited	800.00	-	-	-	902.00	-	-	-
Safaricom Ltd	617.23	17.75	-	-	564.03	16	-	-
Centum Investments Ltd	1,470.00	-	-	66.00	2,245.85	66	-	-
Stanbic Bank Uganda Ltd	25.00	-	-	-	30.00	-	-	-
New Vision Printing and Publishing Company Ltd	555.00	-	-	-	600.00	-	-	-
Umeme Limited	501.00	-	-	-	470.00	-	-	-
Equity Bank Kenya	1,338.79	38.50	-	-	1,628.67	48	-	-
Kenya Commercial Bank	1,173.62	33.75	-	-	1,885.83	55	-	-
Bank of Kigali	1,314.43	-	-	280.00	1,332.64	-	-	289
Tanzania Breweries Ltd	22,051.16	-	13,710.00	-	23,594.40	-	14,500	-
Tanzania Portland Cement Ltd	3,844.08	-	2,390.00	2,390.00	-	-	-	-
British-American Invest Britam	493.79	14.20	-	-	-	-	-	-
PTA Bank Shares- Class B	-	-	-	-	-	-	-	-

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

During the year, the Fund purchased the following shares;

	Currency	Shares	Share price	Exchange Rate	Cost Ushs 000
East African Breweries Ltd	Kshs	13,000,000	290	34.19	128,882,626
Britam Holdings Ltd	Kshs	7,322,000	14	35.51	3,640,424
Tanzania Portland Cement Ltd	Tzs	7,235,217	2,400	1.62	28,140,475
Tanzania Breweries Ltd	Tzs	548,500	13,755	1.47	11,053,905
Umeme Limited	Ush	20,228,300	570	1	11,530,131
PTA Bank	USD	1,740	8,288	3,350.32	48,315,311
					<u>231,562,872</u>

The change in the equity investments during the year was as follows:

	2016 Ushs 000	2015 Ushs 000
At 1 July	734,270,133	251,274,475
Acquisition of new shares	231,562,872	380,034,368
Bonus issue		9,583,489
Fair value (loss)/gain	(74,373,213)	48,438,003
Foreign exchange gain	<u>9,918,103</u>	<u>44,939,798</u>
At 30 June	<u>901,377,895</u>	<u>734,270,133</u>

The Fund's investment in equities that are designated at fair value through profit or loss represent equities for which there is an active market and where the Fund holds less than 20% of the voting rights of the investee companies and the Fund does not have significant influence over the financial and operating decisions of the investee companies.

19. LOANS AND ADVANCES

	2016 Ushs 000	2015 Ushs 000
Uganda Clays Limited (Note 34)	20,592,838	21,352,771
Housing Finance Bank Limited (Note 34)	29,666,667	33,333,333
Staff loans	<u>2,038,886</u>	<u>2,462,090</u>
	52,298,391	57,148,194
Fair value of discount on staff loans	<u>(1,157,665)</u>	<u>(1,331,386)</u>
	51,140,726	55,816,808
Impairment provision for Uganda Clays Limited loan	<u>(20,592,838)</u>	<u>(21,352,771)</u>
	<u>30,547,888</u>	<u>34,464,037</u>

The impairment provision for Uganda Clays Limited loan is analysed as follows;

	Ushs 000
At 1 July 2014	18,104,135
Charge for the year	3,248,636
Utilised	<u>-</u>
At 30 June 2015	<u>21,352,771</u>
Reversal of prior year impairment overprovision	(759,933)
Utilised	<u>-</u>
At 30 June 2016	<u>20,592,838</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

19. LOANS AND ADVANCES (CONTINUED)

The change in the loans and advances during the year was as follows:

	2016	2015
	Ushs 000	Ushs 000
At 1 July	34,464,037	39,325,612
Placements/(disbursements)	-	-
Maturities (proceeds from maturing loans)	(8,385,483)	(9,621,361)
Interest accrued	3,535,680	8,089,217
Prior year overprovision	759,933	(3,248,636)
Fair value adjustment	<u>173,721</u>	<u>(80,795)</u>
At 30 June	<u>30,547,888</u>	<u>34,464,037</u>

The loan to Uganda Clays Limited which was granted on 29 December 2010 is unsecured and is repayable within 96 months in equal monthly instalments commencing after a grace period of two years (effective 27 December 2013). The loan has a fixed interest rate of 15%. For the six months period to 30 June 2016, Uganda Clays Limited made a profit before tax of Ushs 1,272 million and the current assets exceeded the current liabilities by Ushs 9,759 million as at 30 June 2016. However the Company has experienced financial problems since the loan was disbursed and no loan repayment has been received as at 30 June 2016. The loan has therefore been fully impaired as recovery procedures continue to be enforced.

Housing Finance Bank Limited (the bank) has two loan facilities with the Fund of Ushs 25 billion at a rate of 11.5% (2015: 11.5%) and Ushs 22.5 billion at a rate of 15.5% (2015: 15.5%) respectively. The Loans were granted on 25 February 2011 and 16 October 2009 respectively. The loan of Ushs 25 billion is repayable over a period of 15 years while that of Ushs 22.5 billion is repayable over 10 years. Instalments are due on a quarterly basis after a grace period of 24 months from the date of the first disbursement. During the grace period, interest accrued is payable. The loans are secured by the bank's property on Plot 25, Kampala Road and identifiable and performing condominium mortgage book portfolio worth at least Ushs 10 billion of present and future assets representing 25% of the loan sum for the duration of the loan agreement.

In addition, a lien imposed at all times on the government securities owned and held by the bank with a total value of at least Ushs 10 billion representing 25% of the loan sum. The reported amount represents the carrying amount as at year-end.

The staff loans are loans issued by the Fund to its employees at a discounted interest rate of 6.5% (2015: 6.5%). The loans are issued to employees to acquire/construct houses. The loans are secured by the acquired houses and are to be paid over a period of 15 to 20 years. As at 30 June 2016, the average market rate for mortgages was 22% (2015: 18%).

All the above loans and advances are measured at amortised cost with exception of the staff loans which are marked to market. Management assessed all loans outstanding as at 30 June 2016 for indicators of impairment and determined that no loans exhibited signs of impairment and as such no provision for impairment loss has been made with exception of the Uganda Clays Limited loan which has been fully impaired.

Based on the impairment provision, the carrying value of the loans and advances reasonably approximates the fair value.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

20. INVENTORIES

	2016 Ushs 000	2015 Ushs 000
Consumables and stationery	<u>-</u>	<u>853</u>

This relates to consumables and stationery maintained by the Fund for day to day operations.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

21. INVESTMENTS IN ASSOCIATES

	Housing Finance Bank Limited Ushs 000	Uganda Clays Limited Ushs 000	TPS Uganda Limited Ushs 000	Total Ushs 000
At 1 July 2014	53,638,060	11,938,895	5,918,253	71,495,208
Share of profit/(loss)	5,497,030	(997,496)	1,154,548	5,654,082
Less: dividends	(1,277,022)	-	(979,478)	(2,256,500)
At 30 June 2015	<u>57,858,068</u>	<u>10,941,399</u>	<u>6,093,323</u>	<u>74,892,790</u>
Share of profit/(loss)	7,598,269	445,711	2,277,537	10,321,517
Less: dividends	(4,404,806)	-	(489,739)	(4,894,545)
At 30 June 2016	<u>61,051,531</u>	<u>11,387,110</u>	<u>7,881,121</u>	<u>80,319,762</u>

As at 30 June 2016, the Fund had shareholding of 50%, 32.52% and 13.99% in the issued share capital of Housing Finance Bank Limited, Uganda Clays Limited and TPS Uganda Limited respectively. These investments have been accounted for under the equity method. The Fund retained representation on the Board of Directors of TPS subsequent to share dilution in 2013 thus retaining significant influence. As such, the investment in TPS Uganda Limited continues to be accounted for as an investment in associate.

The Fund's 50% holding in Housing Finance Bank Ltd does not give it a controlling interest nor does it give a joint control and as such the investment continues to be accounted for as an associate.

Nature of activities of associate companies

Company	Nature of activities
Housing Finance Bank Limited	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.
Uganda Clays Limited	The principal activities of the company are the production and sale of a wide range of clay building products. The main items produced are roofing tiles.
TPS (Uganda) Limited	The principal activities of the company are that of operating and running a hotel facility in Uganda, serving the business and tourist markets.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

	Housing Finance Bank Limited	Uganda Clays Limited	TPS (Uganda) Limited
Principle place of business	Investment House, Plot 4 Wampewo Avenue, Kololo, P. O. Box 1539, Kampala	14 kms, Entebbe Road, Kajjansi, P. O. Box 3188, Kampala	SN Chambers, Plot 36 Nile Avenue, P. O. Box 7814, Kampala
Market price	Not listed, the trading prices for comparable Banks have been used to determine the fair value of the investment.	Ushs 15 per share	Not listed, the trading price of TPS (Kenya) Limited has been used to determine the fair value of the investment.

	Number of Shares Held	Price per Share	Fair Value
	2016	2015	2016
			Ushs 000
Housing Finance Bank	3,050,000	3,050,000	2,440,000
TPS (Uganda) Limited	19,500	19,500	13,792
Uganda Clays Limited	292,640,000	292,640,000	4,389,600
			<u>6,843,392</u>
			<u>2,751,100</u>
			<u>23,569</u>
			<u>5,267,520</u>
			<u>8,042,189</u>

The summary of the financial information for the investments in associates as at 30 June is as follows:

	Housing Finance Bank Limited	Uganda Clays Limited	TPS (Uganda) Limited
	2016	2015	2015
	Ushs 000	Ushs 000	Ushs 000
Current assets	624,774,250	179,871,114	17,804,078
Non-current assets	42,617,431	430,428,802	61,359,540
Current liabilities	353,544,830	357,825,538	9,248,256
Non-current liabilities	198,729,194	147,548,742	5,940,944
Revenue	47,049,700	93,551,067	25,192,637
Total comprehensive income/(loss) for the year	<u>6,784,389</u>	<u>2,162,483</u>	<u>3,776,763</u>
Percentage held	<u>50%</u>	<u>32.52%</u>	<u>13.99%</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

22. OTHER INVESTMENTS

Victoria Properties Development Limited (VPDL) was incorporated in 2004 to develop the Fund's property at Lubowa for sale to the public. NSSF held a 50% equity interest in VPDL, through its wholly owned subsidiary, Premier Developments Ltd (PDL). VPDL borrowed US\$ 1 million from Premier Developments Limited to finance its preliminary activities. VPDL entered into a contract for the design and supervision of the Lubowa Housing Project with M/s SBI, at a contract price of US\$ 4.9 million, and paid the US\$ 1 million borrowed from PDL to SBI to deliver preliminary designs. PDL was later dissolved by the Constitutional Court, and in 2009, the shareholders of VPDL agreed to wind up the joint venture company and instead have an arm's length contract for design and supervision of the Lubowa Housing Project. The investment was therefore written off in 2009. The winding up/dissolution agreements and arm's length design/supervision contract were signed and the joint venture was finally wound up during the year. The Fund retained 100% ownership of the land, while the other party was retained to provide an arm's length contract for design and supervision of the Lubowa Housing Project.

23. CAPITAL WORK-IN-PROGRESS (CWIP)

	Arua Ushs '000	Lubowa Ushs '000	Lumumba Ushs '000	Mbuya Ushs '000	Jinja Ushs '000	Other Ushs '000	Total Ushs '000
Cost							
At 1 July 2014	2,330,000	249,645,543	-	-	-	596,410	252,571,953
Additions	-	1,275,117	-	-	-	1,309,587	2,584,704
Transfers to computer	-	-	-	-	-	(1,362,859)	(1,362,859)
Reclassification from from Investment Property	-	-	64,447,309	-	-	-	64,447,309
Revaluation Gains	-	-	-	-	-	-	-
Revaluation Loss	-	(7,000,000)	-	-	-	-	(7,000,000)
At 30 June 2015	2,330,000	243,920,660	64,447,309	-	-	543,138	311,241,107
Additions	-	1,157,247	941,480	47,530	566,478	823,036	3,535,771
Transfer from other CWIP	-	-	-	6,934	-	(6,934)	-
Transfer from investment Property	-	-	-	1,800,000	560,000	-	2,360,000
Reclassification to expenses	-	-	-	(6,934)	-	-	(6,934)
Revaluation Gains	-	-	-	-	-	-	-
At 30 June 2016	2,330,000	245,077,907	65,388,789	1,847,530	1,126,478	1,359,240	317,129,944
Provision for impairment							
At 1 July 2015/2016	(2,330,000)	-	-	-	-	-	(2,330,000)
Net carrying amount							
At 30 June 2016	-	245,077,907	65,388,789	1,847,530	1,126,478	1,359,240	314,799,944
At 30 June 2015	-	243,920,660	64,447,309	-	-	543,138	308,911,107

The Arua capital work-in-progress relates to construction costs for a hotel at the golf course. As at 30 June 2009, construction of the hotel was near completion but modalities of share of interest in the hotel had not been finalized with the trustees of the Arua Golf Club. The Fund has estimated to incur losses as a result of the delayed implementation of this joint venture and ownership structure of the joint venture. Due to uncertainties surrounding the recoverability of these amounts, the balance was fully impaired in 2008. Management is currently negotiating with the trustees of the Golf Club with a view of finalizing the joint venture arrangements.

The Lubowa capital work in progress relates to Lubowa Housing Project. The Fund contracted Soleh Boneh International (SBI) Holdings AG Uganda as the project designer and supervisor for the project. The fair value of the land at Lubowa was assessed by Ridgeline, certified professional valuer as at 30 June 2016 and no significant movement was noted in comparison to the year ended 30 June 2015. The movement has been accounted for in the financial statements.

The Fund completed Phase 1 of the development of Lumumba avenue and the property has been classified under capital work in progress. The fair value of this property under construction is not reliably determinable and is therefore carried at cost until completion.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

24. INVESTMENT PROPERTIES

	Valuation at 30 June 14 Ushs '000	Additions Ushs '000	Disposal Ushs '000	Change in Fairvalue Ushs '000	Reclassification to CWIP Ushs '000	Valuation at 30 June 15 Ushs '000	Additions Ushs '000	Disposal Ushs '000	Change in Fairvalue Ushs '000	Reclassification to CWIP Ushs '000	Valuation at 30 June 16 Ushs '000
Workers House	54,500,000	1,748,682	-	-	-	56,248,682	-	-	(248,682)	-	56,000,000
Plot 5 Mvule Rd Naguru	1,800,000	-	-	-	-	1,800,000	-	-	200,000	-	2,000,000
Land on Yusuf Lule Road	19,000,000	-	-	-	-	19,000,000	-	-	-	-	19,000,000
Independence Ave Arua	150,000	-	-	-	-	150,000	-	-	20,000	-	170,000
Land in Kisugu	195,000	-	-	-	-	195,000	-	-	55,000	-	250,000
Land in Kabale	230,000	-	-	-	-	230,000	-	-	-	-	230,000
Land in Jinja	560,000	-	-	-	-	560,000	-	-	-	(560,000)	-
Land in Tororo	190,000	-	-	-	-	190,000	-	-	(20,000)	-	170,000
Lumumba Avenue	62,385,608	2,061,701	-	-	(64,447,309)	-	-	-	-	-	-
Social Security House	26,000,000	-	-	-	-	26,000,000	-	-	3,000,000	-	29,000,000
Mbuya Property M65	3,100,000	-	(3,100,000)	-	-	-	-	-	-	-	-
Land in Mbuya	1,800,000	-	-	-	-	1,800,000	-	-	-	(1,800,000)	-
Land in Lubowa	-	-	-	-	-	-	-	-	-	-	-
Land in Busiro	15,600,000	-	-	5,900,000	-	21,500,000	-	-	2,625,000	-	24,125,000
Temangalo	-	-	-	-	-	-	-	-	-	-	-
Plot 16 Nakasero Rd (FRV 304)	8,200,000	-	-	-	-	8,200,000	-	-	200,000	-	8,400,000
Total	193,710,608	3,810,383	(3,100,000)	5,900,000	(64,447,309)	135,873,682	-	-	5,831,318	(2,360,000)	139,345,000

Investment properties comprise of land and buildings held to earn rental income and/or capital appreciation. The fair values of the Investment Properties were assessed by Ridgeline, certified professional valuer as at 30 June 2016 and no significant movements were noted except for land at Temangalo in comparison to the year ended 30 June 2016. The movement in Temengalo land has been accounted for in the financial statements. In determining the fair values of investment properties, the valuer used the market approach by reference to the open market value which is the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of assessment.

In instances where the market value of a property could not be ascertained due to lack of information, the valuers adopted the cost approach which is based on the depreciated replacement cost. With this method, the values for buildings and other improvements are determined by calculating the present day replacement cost of putting up a similar and functional structure ready to provide the same facilities at the same place but depreciating them accordingly.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

24. INVESTMENT PROPERTIES (CONTINUED)

Changes in fair values are recognised as gains in profit or loss and included in 'other operating income'. All gains are unrealised except for Mbuya Property M65 that was disposed of during the year.

The impact of revaluing investment properties on profit for the year is Ushs 5.8 billion (2015: 5.6 billion) as disclosed in the table above which also shows the reconciliation of the movement in the carrying amount of the investment property between the opening and closing dates.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

	Significant unobservable inputs	Range (weighted average)	2015
Office properties	Estimated rental value per square meter per month		Ushs 31,300 - Ushs 39,000 (Ushs 35,000)
	Rent growth per annum		2% - 3% (2.5%)
	Long-term vacancy rate		10% - 16% (13%)
	Discount rate		11%
Land & buildings	Price per square meter		Ushs 1,000,000 - Ushs 3,000,000

No material change in the fair value of office properties as assessed by the Fund's independent valuer.

Valuation techniques for investment properties:

Market Approach

Land was valued by the sales comparison method on the basis of its unimproved state taking into account the various categories of existing and potential use. Other factors such as location, services, accessibility, and proximity to suppliers, inputs and markets were also taken into account. Attention was paid to the concept of 'Highest and Best Use' of property.

Cost Approach

Buildings, structures and services were valued at current replacement costs taking into account their depreciation.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

24. INVESTMENT PROPERTIES (CONTINUED)

The Fund generated rental income from its investment properties as shown below:

	2016	2015
	Ushs 000	Ushs 000
Workers House	6,809,322	5,959,849
Social Security House	2,353,728	2,055,783
Others	1,525,002	604,201
Service charge	<u>776,076</u>	<u>1,645,268</u>
	<u>11,464,128</u>	<u>10,265,101</u>

The Fund incurred direct operating expenses (including repairs and maintenance) arising from investment properties that generated rental income during the period as below;

	2016		
		Social Security	
	Workers House	House	Total
	Ushs 000	Ushs 000	Ushs 000
Maintenance & repairs	1,503,035	689,286	2,192,321
Ground & property rent	179,246	76,599	255,845
Cleaning services	133,910	52,782	186,692
Security services	286,519	83,260	369,779
Electricity	784,139	378,416	1,162,555
Water	<u>124,371</u>	<u>108,983</u>	<u>233,354</u>
Total	<u>3,011,220</u>	<u>1,389,326</u>	<u>4,400,546</u>

	2015		
		Social Security	
	Workers House	House	Total
	Ushs 000	Ushs 000	Ushs 000
Maintenance & repairs	743,031	623,315	1,366,346
Ground & property rent	183,107	73,790	256,897
Cleaning services	129,813	76,478	206,291
Security services	276,599	86,400	362,999
Electricity	731,962	348,492	1,080,454
Water	<u>156,536</u>	<u>91,887</u>	<u>248,423</u>
Total	<u>2,221,048</u>	<u>1,300,362</u>	<u>3,521,410</u>

The Fund incurred direct operating expenses (including repairs and maintenance) arising from investment properties which did not generate rental income during the period as shown below (no expenses were incurred on properties other than those indicated in the table below):

	2016			
	Land in	Land in Busiro	Land in	
	Lubowa	Temangalo	Mbuya	Total
	Ushs 000	Ushs 000	Ushs 000	Ushs 000
Security expenses	527,808	22,800	-	550,608
Demolition expenses	8,500	-	-	8,500
Cleaning expenses	-	-	18,436	18,436
Total	<u>536,308</u>	<u>22,800</u>	<u>18,436</u>	<u>577,544</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

24. INVESTMENT PROPERTIES (CONTINUED)

	2015			
	Land in Lubowa Ushs 000	Land in Busiro Temangalo Ushs 000	Land in Mbuya Ushs 000	Total Ushs 000
Security expenses	32,400	21,600	21,600	75,600
Demolition expenses	50,000	-	-	50,000
Cleaning expenses	-	-	18,436	18,436
Total	<u>82,400</u>	<u>21,600</u>	<u>40,036</u>	<u>144,036</u>

As at 30 June 2016, there were no restrictions on the realisability of investment property with the exception of LRV 2172 Folio 10, Plot 1 Pilkington Road which had a caveat.

There was no restriction to the remittance of income and proceeds of disposal and there were no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

25. INTANGIBLE ASSETS

	2016 Ushs 000	2015 Ushs 000
Cost		
At 1 July	19,438,708	19,168,629
Transfers from capital work in progress	-	-
Additions	19,807	270,079
At 30 June	<u>19,458,515</u>	<u>19,438,708</u>
Amortisation		
At 1 July	13,580,912	11,856,508
Charge for the year	1,477,359	1,724,404
At 30 June	<u>15,058,271</u>	<u>13,580,912</u>
Net carrying amount	<u>4,400,244</u>	<u>5,857,796</u>

Intangible assets mainly relate to software which makes up the Integrated Management Information System (IMIS) of the Fund.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

26. PROPERTY AND EQUIPMENT

	Land US\$'000	Property & Machinery US\$'000	Motor Vehicles US\$'000	Furniture and Fittings US\$'000	Computer Equipment US\$'000	TOTAL US\$'000
Cost						
At 1 July 2014	656,290	1,768,007	2,589,723	3,973,881	10,940,063	19,927,964
Additions	-	965,937	2,135,486	596,176	1,129,445	4,827,044
Transfer from CWIP	-	-	-	-	1,362,859	1,362,859
Reclassification	(256,290)	-	-	-	-	(256,290)
Disposals	-	(89,165)	(636,205)	(206,438)	(227,662)	(1,159,470)
As at 30 June 2015	400,000	2,644,779	4,089,004	4,363,619	13,204,705	24,702,107
Additions	-	471,181	2,933,889	867,644	2,116,304	6,389,018
Transfer from CWIP	-	-	-	-	-	-
Disposals	-	(47,911)	(1,544,066)	(33,003)	(271,325)	(1,896,305)
As at 30 Jun 2016	<u>400,000</u>	<u>3,068,049</u>	<u>5,478,827</u>	<u>5,198,260</u>	<u>15,049,684</u>	<u>29,194,820</u>
Depreciation						
At 1 July 2014	-	1,345,191	2,586,309	2,004,096	9,635,484	15,571,080
Charge for the year	-	294,424	233,500	409,995	921,725	1,859,644
Disposals	-	(89,165)	(636,206)	(198,146)	(227,663)	(1,151,180)
As at 30 Jun 2015	-	1,550,450	2,183,603	2,215,945	10,329,546	16,279,544
Charge for the year	-	362,919	967,712	508,268	1,323,069	3,161,968
Disposals	-	(47,911)	(1,544,064)	(32,761)	(271,325)	(1,896,061)
As at 30 Jun 2016	<u>-</u>	<u>1,865,458</u>	<u>1,607,251</u>	<u>2,691,452</u>	<u>11,381,290</u>	<u>17,545,451</u>
Net carrying amount						
As at 30 Jun 2016	<u>400,000</u>	<u>1,202,591</u>	<u>3,871,576</u>	<u>2,506,808</u>	<u>3,668,394</u>	<u>11,649,369</u>
As at 30 Jun 2015	<u>400,000</u>	<u>1,094,329</u>	<u>1,905,401</u>	<u>2,147,674</u>	<u>2,875,159</u>	<u>8,422,563</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

27. FINANCE LEASE

	Valuation as At 30 June 2015 Ushs 000	Additions Ushs 000	Disposals Ushs 000	Change in fair value Ushs 000	Valuation as At 30 June 2016 Ushs 000
Plot 47 Masaka K'la RD	46,787	-	-	173,213	220,000
Plot 87 Churcchill Gulu	105,248	-	-	74,752	180,000
Plot 8 Msk CL. Mbarara	<u>104,254</u>	<u>-</u>	<u>-</u>	<u>145,746</u>	<u>250,000</u>
	<u>256,289</u>	<u>-</u>	<u>-</u>	<u>393,711</u>	<u>650,000</u>

Finance leases relate to properties that were acquired by the Fund under lease agreements to build offices. These have been reclassified from property and equipment.

28. WITHHOLDING TAX PAYABLE

	2016 Ushs 000	2015 Ushs 000
Withholding tax payable	-	<u>1,208,340</u>
Withholding tax claimable	<u>12,065,756</u>	<u>-</u>

This relates to withholding tax withheld by/from suppliers and consultants which is payable to or claimable from Uganda Revenue Authority.

29. OTHER PAYABLES

	2016 Ushs 000	2015 Ushs 000
Accounts payable	15,382,127	17,476,653
Accrual for legal costs	4,105,840	7,043,594
Alcon retention payable	2,076,816	2,005,057
Deferred income	1,365,376	486,579
VAT recoverable	<u>399,148</u>	<u>-</u>
	<u>23,329,307</u>	<u>27,011,883</u>

The accounts payables are interest free and not overdue. Deferred income relates to advance rent payments from customers as required by the Fund's rental agreements.

The accrual for legal costs is analysed as follows:

	2016 Ushs 000	2015 Ushs 000
At 1 July	7,277,857	7,277,857
Payments made during the year	(1,854,877)	(1,170,913)
Reversal of previous provisions	(1,648,940)	(2,043,050)
Increase in accrual during the year	<u>331,800</u>	<u>2,979,700</u>
At 30 June	<u>4,105,840</u>	<u>7,043,594</u>

The accrual for legal costs relates to fees for the lawyers who handled the Alcon case disclosed in Note 30 and other legal fees relating to other cases based on the fee notes raised by the lawyers. The fee notes relating to the Alcon case have been referred to court for assessment of reasonableness before they can be paid.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

30. PROVISIONS FOR LITIGATION

	2016 Ushs 000	2015 Ushs 000
Alcon International Limited		
At 1 July	11,852,903	9,420,196
Foreign exchange losses	424,209	2,432,707
Additional provision	-	-
At 30 June	<u>12,277,112</u>	<u>11,852,903</u>

On 21 July 1994, the Fund and Alcon International Limited (Alcon), a company incorporated in the Republic of Kenya, entered into a building contract to erect a building on land located on Plot 1 Pilkington Road, Kampala ("the site") at the contract price of USD 16,160,000. In addition, the parties signed a co-financing agreement by which Alcon agreed to lend NSSF USD 8,080,000 in the form of materials, workmanship and labour. On 8 June 1996, the parties signed an additional agreement to carry out "improvement works" for an additional sum of USD 9,066,917.

NSSF alleged default on the terms of the contract by Alcon and construction of all the works contemplated by the contract was not completed. NSSF terminated the contract on 15 May 1998 due to breaches by Alcon. Consequently, on 30 November 1998, Alcon filed Civil Suit No.1255 of 1998 against NSSF seeking general damages for breach of contract. The High Court stayed the suit and referred the dispute to arbitration.

On 29 March 2001, the arbitrator awarded Alcon USD 8,858,470 and interest at 6% per annum. A corresponding provision was made in the financial statements for this amount which was accruing interest on an annual basis. However, NSSF was dissatisfied with the award and filed an objection in the High Court under Misc. Application No. 417 of 2001 seeking to set it aside. On 30 September 2003, the High Court dismissed the objection. NSSF filed a Civil Appeal No. 2 of 2004 in the Court of Appeal which was also dismissed with costs on 25 August 2009. NSSF then filed Civil Appeal No. 15 of 2009 in the Supreme Court against the decision of the Court of Appeal.

During the financial year 2012/13, the Fund adopted a new litigation strategy, introduced new grounds of appeal and also instructed new lawyers to conduct the case. In February 2013, the Supreme Court delivered a judgment setting aside the arbitration award, and ordered that the case be tried afresh in the High Court.

Management is of the opinion Alcon's claim has no chance of success owing to the Supreme Court's findings of fraud and lack of a cause of action for breach of contract which are binding on the High Court. The High Court trial will therefore be a formality. The provision hitherto made for that liability amounting to Ushs 41.6 billion was accordingly reversed in the financial year 2012/13. However, a provision of USD 3,553,731 was made in the financial statements in the same period for works performed by Alcon that had not been settled by the Fund. This provision is still held as at 30 June 2016.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

31. ACCUMULATED MEMBERS' FUNDS

	2016	2015
	Ushs 000	Ushs 000
At 1 July	5,166,761,915	4,147,285,690
Contributions received during the year	785,498,304	688,095,082
Reallocation of interest on arrears from members funds to the profit and loss	(2,823,917)	1,902,042
Interest for the year	<u>593,046,806</u>	<u>516,088,517</u>
Members fund liability before benefit payments	6,542,483,108	5,353,371,331
Benefits paid during the year		
Age benefits	(80,225,005)	(67,531,078)
Withdrawal benefits	(68,706,382)	(55,253,246)
Exempted employee benefits	(30,083,905)	(14,682,681)
Invalidity benefits	(14,732,541)	(13,255,329)
Survivors benefits	(7,153,914)	(6,185,931)
Emigration grant benefits	<u>(37,895,419)</u>	<u>(29,701,151)</u>
Total benefits payments	<u>(238,797,166)</u>	<u>(186,609,416)</u>
At 30 June	<u>6,303,685,942</u>	<u>5,166,761,915</u>
Interest to Members:		
	2016	2015
	Ushs 000	Ushs 000
Unallocated interest from prior year*	13,092,858	4,191,833
Charge Profit and Loss	<u>597,285,997</u>	<u>521,769,156</u>
Total Interest available to members	<u>610,378,855</u>	<u>525,960,989</u>
Allocated as follows:		
To Member funds		
Opening provision balance	13,092,858	-
Charge to profit and Loss	<u>593,046,806</u>	<u>516,088,517</u>
	606,139,664	516,088,517
To Reserves		
Opening provision balance	-	4,191,833
Charge to profit and Loss	<u>4,239,191</u>	<u>5,680,639</u>
	4,239,191	9,872,472
Total Provision	<u>610,378,855</u>	<u>525,960,989</u>
Total Charge to profit and Loss		
Allocated to Members fund	593,046,806	516,088,517
Allocated to reserves	<u>4,239,191</u>	<u>5,680,639</u>
	<u>597,285,997</u>	<u>521,769,156</u>

* The interest of Ushs 13 billion was part of the interest provisioned in prior years but was not allocated to members. This amount has been transferred to the current year interest that is to be credited to the members.

Interest provision for allocation to members is declared by the Minister in accordance with section 35 (2) of the National Social Security Fund Act, (Cap 222). For the year ended 30 June 2016, the Minister for Finance, Planning & Economic Development approved an interest rate of 12.3% (2015: 13%) to be calculated and added to the members' funds.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

32. RESERVES

	Note	2016 Ushs 000	2015 Ushs 000
Special contributions, fines and penalties	(a)	41,403,373	36,851,150
Unallocated members contributions	(b)	<u>38,704,163</u>	<u>34,464,972</u>
		<u>80,107,536</u>	<u>71,316,122</u>

a) Special contributions, fines and penalties

	2016 Ushs 000	2015 Ushs 000
At 1 July	36,851,150	25,556,942
Special contributions received	4,913,165	8,634,140
Reallocation of fines and penalties	(360,942)	4,562,110
Interest allocated to members arising from arrears recovered	-	(1,902,042)
At 30 June	<u>41,403,373</u>	<u>36,851,150</u>

In accordance with Section 13 (1) and Section 14 (1) of the National Social Security Fund Act, (Cap 222), special contributions by non-eligible employees are recognised directly in reserves since they relate to members' contributions and not operating results of the Fund. Fines and penalties recovered from employers that fail to remit members' funds in time are recognised through the income statement and then appropriated from the accumulated surplus/deficit to the reserve account.

	2016 Ushs 000	2015 Ushs 000
b) Unallocated members' contributions		
Principal Contributions	24,592,500	24,592,500
Provision for interest on unallocated members' contributions	<u>14,111,663</u>	<u>9,872,472</u>
	<u>38,704,163</u>	<u>34,464,972</u>

The movement in the provision for interest on unallocated members' contributions was as follows;

	2016 Ushs 000	2015 Ushs 000
At 1 July	9,872,472	-
Transfer from unallocated Interest from Prior year	-	4,191,833
Charged to Profit and Loss	<u>4,239,191</u>	<u>5,680,639</u>
At 30 June	<u>14,111,663</u>	<u>9,872,472</u>

As at 30 June 2016, the Fund had unallocated members' contributions of Ushs 24.6 billion that formed part of the reserve account. As at 30 June 2007, the unallocated members' contributions amounted to Ushs 360 billion and through the measures taken by management to identify the respective members to whom the amounts belonged, the unallocated amounts gradually reduced over the years to Ushs 24.6 billion as at 30 June 2012. The directors believe that, in addition to putting in place measures to curtail the growth of the unallocated amounts, the Fund had exhausted all possible measures to identify the members to whom these amounts belonged and accordingly resolved to transfer the Ushs 24.6 billion to the reserve account in accordance with Section 36 (1) (b) of the NSSF Act. In the event that a member of the Fund presents adequate documentation to prove that there are contributions that should have been credited to their account, NSSF will transfer the contributions from the reserve account to the members' account following approval by the Minister of Finance as stipulated in Section 36 (2) of the NSSF Act. There was no transfer of these funds during the year.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

33. NET CASH USED IN OPERATING ACTIVITIES

	Note	2016 Ushs'000	2015 Ushs'000
Surplus from operations		593,774,731	738,216,174
Depreciation of property and equipment	26	3,161,969	1,859,644
Gain on disposal of property and equipment		(613,778)	(216,658)
Gain on disposal of equity investments held for trading		-	-
Loss on disposal of investment properties		-	595,000
Amortization of intangible assets	25	1,477,359	1,724,404
Share of results from associates	21	(10,321,515)	(5,654,082)
Staff loan fair value adjustment		(173,721)	80,795
Unrealised foreign exchange gains on equity investments at fair value through profit or loss	18	(9,918,104)	(44,939,798)
Unrealised foreign exchange gains on held to maturity investments	17	(16,934,643)	(97,954,778)
Unrealised foreign exchange gains on held for trading investments	15	394,340	(1,350,124)
Unrealised foreign exchange gains on deposits with commercial banks	14	-	(161,029)
Fair value gains on investment properties	24	(5,831,318)	(5,900,000)
Fair value loss on capital work in progress	23	6,934	7,000,000
Fair value gain on equity investments held for trading	15	14,048,450	(14,709,202)
Fair value gain on equity investments at fair value through profit or loss	18	74,373,212	(48,438,003)
Fair value (gain)/loss on finance leases	27	(393,711)	-
Interest income on loans & advances	19	(3,535,680)	(8,089,217)
Interest income on held to maturity investments	17	(538,693,390)	(371,669,140)
Interest income on commercial bank deposits	14	(39,573,496)	(72,154,895)
Withholding tax on investments accrued for the year		(102,331,080)	(90,433,851)
Bonus equity investments received	18	-	(9,583,489)
Prior year interest to members over-provision		(1,008,537)	4,191,833
<u>Changes in working capital</u>			
Increase in provisions		424,209	2,432,707
(Decrease)/Increase in provisions for bad loans		(759,933)	3,248,636
Decrease in inventories		853	2,057
Increase in trade and other receivables		(11,518,601)	(3,179,620)
Increase in tax deposit receivable		-	(25,323,522)
Increase in other payables		(3,682,576)	2,153,583
Increase in WHT payable		(13,274,096)	237,112
Net cash used in operating activities		<u>(70,902,122)</u>	<u>(38,015,463)</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

34. RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that have been entered into with related parties. For further information regarding the outstanding balances at 30 June 2016 and 2015, refer to Notes 13, 14, 17 and 19:

	2016	2015
	Ushs'000	Ushs'000
Bank balances		
Housing Finance Bank Limited	<u>15,758</u>	<u>22,816</u>
Loans and Advances		
Housing Finance Bank Limited	29,666,667	33,333,333
Uganda Clays	20,592,838	21,352,771
Staff loans to key management staff	<u>470,236</u>	<u>488,902</u>
	<u>50,729,741</u>	<u>55,175,006</u>
Corporate Bonds		
Housing Finance Bank Limited	<u>4,797,286</u>	<u>7,418,417</u>
Fixed deposits		
Housing Finance Bank Limited	<u>23,482,985</u>	<u>-</u>
Treasury Bonds		
Government of Uganda	<u>3,682,764,644</u>	<u>3,061,585,099</u>
Dividends receivable (Associate Companies)		
Housing Finance Bank Limited	10,061,927	5,657,123
TPS (U) Limited	-	-
Uganda Clays	<u>111,192</u>	<u>111,192</u>
	<u>10,173,119</u>	<u>5,768,315</u>
Other related party transactions during the year:		
	2016	2015
	Ushs'000	Ushs'000
Housing Finance Bank Limited		
Interest income on loans and advances	4,160,775	4,532,570
Interest income on corporate bonds	714,128	973,534
Interest income on term deposits	<u>1,577,560</u>	<u>4,370,937</u>
	<u>6,452,463</u>	<u>9,877,041</u>
Dividend Income		
TPS (U) Limited	489,739	979,478
Housing Finance	<u>4,404,804</u>	<u>1,277,022</u>
	<u>4,894,543</u>	<u>2,256,500</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

34. RELATED PARTY DISCLOSURES (CONTINUED)

	2016	2015
	Ushs'000	Ushs'000
Uganda Clays		
Interest income on loans and advances	-	3,248,636
Government of Uganda		
Withholding tax expense for the year	115,218,562	90,433,851
Interest income on treasury bonds	473,788,073	337,021,078

a) Housing Finance Bank Limited

The Fund has 50% shareholding in Housing Finance Bank Limited (the bank).

Bank balances - The bank balances relate to balances on the current accounts held by NSSF in the bank. These accounts are non-interest bearing.

Fixed deposits - The Fund has fixed deposit placements with the bank maturing within a period of 365 days.

Corporate bond - Housing Finance Bank Limited (the bank) has two corporate bond facilities with the Fund of Ushs 5 billion at a rate of 13.5% and Ushs 5 billion of 13.75% respectively. These bonds are repayable over a period of 10 years and they mature on 12 January 2018 and 31 July 2018 respectively.

Loans - Loans to the bank are at interest rates ranging between 11.5% and 15.5%. Refer to Note 19 for the terms and conditions of the facilities.

b) Uganda Clays Limited

The Fund has 32.5% shareholding in Uganda Clays Limited. Refer to Note 19 for the terms and conditions of the loan facility.

c) TPS -The Fund has 13.9% shareholding in TPS.

d) Government of Uganda

The Government has 100% control of the Fund. The Fund invests in treasury bonds issued by the Government which have the terms and conditions presented in Note 17. Other significant related party transactions with the Government of Uganda include payment of taxes (Pay as-You-Earn (PAYE), VAT and withholding tax on local supplies and professional services), utility costs and rental income earned from government ministries that occupy the Fund's properties.

e) Terms and conditions

Other than the terms disclosed above, there have been no guarantees provided or received for any of the above related party balances. For the year ended 30 June 2016, the Fund has recorded an impairment of receivables relating to amounts owed by related parties of Ushs 1billion (2015: Ushs 3.25 billion). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

34. RELATED PARTY DISCLOSURES (CONTINUED)

f) Compensation for key management personnel and directors emoluments

	2016	2015
	Ushs'000	Ushs'000
Non-executive directors' emoluments:		
Directors' allowances	505,745	505,745
Key management remuneration:		
Salaries and allowances	2,349,359	2,349,359
Gratuity	<u>512,697</u>	<u>512,697</u>
	<u>2,862,056</u>	<u>2,862,056</u>
Total compensation for key management personnel	<u>3,367,801</u>	<u>3,367,801</u>

The amounts disclosed above are the amounts recognised as an expense during the reporting period related to key management personnel and directors.

35. CONTINGENT LIABILITIES

- a) The Fund is a litigant in various cases for breach of contract arising in the normal course of business. The directors are of the view that the Fund has high chances of success against the plaintiffs and none of the cases individually or in aggregate would have a significant impact on the Fund's operation. The directors are confident that the Fund shall receive favourable ruling from the outstanding cases. Information on these cases has not been disclosed as the directors consider that the disclosure of the information could prejudice the Fund's position. The cases in which the Fund is a litigant majorly relate to breach of contracts that the Fund entered into and members suing for their unsettled benefit claims.

- b) The Fund received a notice of assessment for corporation tax from Uganda Revenue Authority (URA) amounting to Ushs 84.4 billion during the year ended 30 June 2013.

The Fund objected to the assessment on the grounds that URA's tax computations wrongly disallowed expenses that are actually deductible for tax purposes. Management believes the tax treatment adopted by NSSF is in accordance with the provisions of Section 22(1)(a) and Section 25 of the Income Tax Act which allows a deduction for interest incurred during the year of income in respect of a debt obligation. Guidance received from the URA in 2001 allowed for these expenses to be deductible for tax purposes. There have been no changes to those sections of the Income Tax Act. The Fund has treated the interest incurred in the past in exactly the same way.

The Fund filed a suit with the High Court Commercial Division to challenge the assessment and the case is still under mediation. The Fund's legal advisors have indicated that there is a strong basis of challenging the assessment. Therefore, the directors have not recognised any provision for liability to the URA.

In accordance with the Income Tax Act the Fund was required to pay 30% deposit of the assessed tax as disclosed under Note 12(c). Payment of this deposit is not an admission of guilt but purely a statutory payment.

The ultimate outcome of this case cannot presently be determined. Accordingly, these matters are disclosed as a contingent liability as the Fund currently has a possible obligation and the existence of any obligation to URA will be confirmed only by the decision of the court. There has not been a change in the proceedings since prior year.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

36. NSIMBE HOLDINGS LIMITED

Through its wholly owned subsidiary, Premier Developments Limited (PDL), the Fund entered into a joint venture arrangement with Mugoya Estates Limited in which the latter held a 51% share of the joint venture entity, Nsimbe Holdings Limited. Subsequent to the formation, the Fund's investment in Nsimbe Holdings Limited was investigated by the Inspector General of Government (IGG) who declared the Fund's investment illegal and one done in bad faith. As a result of this investigation, Nsimbe Holdings Limited challenged the IGG's findings in the Constitutional Court. The Constitutional Court subsequently declared the agreement leading to the formation of Nsimbe Holdings Limited unconstitutional and therefore the company did not exist in law i.e. a non-entity which cannot sue or be sued. PDL was later dissolved by the Constitutional Court and the Board of Directors of the Fund resolved that the joint venture is formally liquidated and both parties share the joint venture assets in proportion to their shareholding. This investment was written off in 2010 but the Fund has taken legal action to recover its investment. The matter was referred by court to arbitration and has not yet been concluded.

37. USE OF ESTIMATES AND JUDGEMENTS

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 policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The estimates and associated assumption are based on historical experiences, the results of which form the basis of making the judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

The Fund makes estimates and assumptions that could 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 accounting policies that involve high judgement in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are:

- (i) *Impairment* - The Fund regularly reviews its assets and makes judgements in determining whether an impairment loss should be recognized 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. Further information on impairment is disclosed in Note 16 and Note 19.
- (ii) *Determining fair values* - The determination of fair value for financial assets 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. Further information on determination of fair value is disclosed in Notes 24 and 38.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

37. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

(iii) *Provisions and contingencies* - A provision is recognized if, as a result of past events, the Fund 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. Management has made judgements in determining the provisions presented in Note 30.

(iv) *Investment property*- The Fund carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Fund engaged an independent valuation specialist to assess fair value as at 30 June 2016. The investment properties were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in note 24.

38. FINANCIAL RISK MANAGEMENT

The Fund has exposure to the following risks from its use of financial instruments:

- Market risk,
- Liquidity risk,
- Credit risk, and
- Capital management risk

Included below is information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing the risks and the Fund's management of capital.

Risk management framework

The Fund's Board of Directors has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board has established an Audit and Risk Committee, and the Risk Department, which are responsible for developing and monitoring the risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Fund through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Fund's Audit and Risk Committee is responsible for monitoring compliance with the Fund's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund. The Audit and Risk Committee is assisted in these functions by Internal Audit and Risk functions.

Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

(a) Market risk

Market risk is the risk that changes in market prices, such as investment prices, interest rates and foreign exchange rates will affect the Fund's income or the value of its holdings of financial

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

instruments. The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, while optimising the return on investment.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Management of market risks

Market risk arises from a decrease in the market value of a portfolio of financial instruments caused by adverse movements in the market variables such as equity, bonds and property prices, currency exchange rates and interest rates.

The Board grants authority to take on market risk exposure to the Management Investment Committee (MIC). This committee manages this risk through the guidelines set out in the Fund's investment policy.

Equity price risk

The Fund is exposed to equity securities price risk through its investments in quoted and unquoted shares. The Fund's Investment committee diversifies its portfolio. Diversification of the portfolio is done in accordance with the guidelines set out in the Fund's investment policy. All shares held by the Fund are either quoted or traded on the Uganda, Dar-es-salaam, Rwanda and Nairobi Securities Exchanges.

The table below shows the effect of share price sensitivity on the surplus before tax based on the share price volatility as at 30 June 2015;

Type of Investment	Change in share price % Ushs 000	Effect on surplus before tax Ushs 000
Equity securities held-for-trading	+/-5%	+/- 4,243,160
Equity investments at fair value through profit or loss	+/-5%	+/- 36,068,895

Property price risk

The Fund is exposed to property price risk through its investments in real estate properties. The Fund's Investment committee diversifies its portfolio. Diversification of the portfolio is done in accordance with the guidelines set out in the Fund's investment policy.

The table below shows the effect of property price sensitivity on the surplus before tax based on the property price volatility as at 30 June 2016;

	Change in property price % Ushs 000	Effect on surplus before tax Ushs 000
Investment property	+/-5%	+/- 6,967,250

Currency risk

The Fund is exposed to currency risk through transactions in foreign currencies. The Fund transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the Fund ensures that its net exposure is kept to an acceptable level by matching foreign currency assets to liabilities when considered appropriate. Monitoring of foreign currency fluctuations is done through the Audit and Risk Committee.

The Fund operates wholly within Uganda and its assets and liabilities are reported in Uganda Shillings, although it maintains some of its assets and trades with banks in foreign currencies.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

The Fund had the following currency positions as at 30 June 2016. All balances are in Ushs'000's.

	USD	Kshs	Tshs	Ushs	Rwf	Total
Financial assets						
Cash and bank balances	4,933,541	1,808,906	2,536,117	18,511,340	10,234	27,800,138
Deposits with commercial banks	-	-	-	274,062,186	-	274,062,186
Equity securities held-for-trading	-	60,220,384	12,486,974	12,155,832	-	84,863,190
Trade and other receivables	914,515	12,282,804	-	27,145,648	2,302,867	42,645,834
Investments in securities held-to-maturity	-	423,055,156	66,872,173	4,126,443,982	19,374,109	4,635,745,420
Equity investments at fair value through profit or loss	58,929,849	471,611,385	116,017,380	198,955,921	55,863,360	901,377,895
Loans and advances	-	-	-	30,547,888	-	30,547,888
Total Assets	64,777,905	968,978,635	197,912,644	4,687,822,797	77,550,570	5,997,042,551
Financial liabilities						
Withholding tax payable	-	-	-	298,750	-	298,750
Other payables	645,562	-	-	22,922,522	-	23,568,084
	645,562	-	-	23,221,272	-	23,866,834
Currency gap						
At 30 June 2016	64,132,343	968,978,635	197,912,644	4,664,601,525	77,550,570	5,973,175,717

The Fund had the following currency positions as at 30 June 2015. All balances are in Ushs'000's.

	USD	Kshs	Tshs	Ushs	Rwf	Total
Financial assets						
Cash and bank balances	762,960	3,208,090	-	10,093,287	-	14,064,337
Deposits with commercial banks	-	-	-	251,067,909	-	251,067,909
Equity securities held-for-trading	-	64,023,329	13,961,506	12,149,336	-	90,134,171
Trade and other receivables	340,278	1,432,311	142	25,151,187	-	26,923,918
Investments in securities held-to-maturity	-	812,891,919	-	3,013,107,002	13,929,224	3,839,928,145
Prior year adjustment	-	(11,948,542)	-	(7,523,645)	-	-
Equity investments at fair value through profit or loss	-	399,821,918	-	334,448,215	-	734,270,133
Loans and advances	-	-	-	34,464,037	-	34,464,037
Total Assets	1,103,238	1,269,429,025	13,961,648	3,672,957,328	13,929,224	4,971,380,463
Financial liabilities						
Withholding tax payable	-	-	-	1,208,340	-	1,208,340
Other payables	645,562	-	-	26,366,321	-	27,011,883
	645,562	-	-	27,574,661	-	28,220,223
Currency gap						
At 30 June 2015	457,676	1,269,429,025	13,961,648	3,645,382,667	13,929,224	4,943,160,240

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

The table below indicates the currencies to which the Fund had significant exposure at 30 June on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Uganda Shilling, with all other variables held constant, on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the statement of comprehensive income and equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Uganda Shilling would have resulted in an equivalent but opposite impact.

Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
	2016	2016	2015	2015
		Ushs '000		Ushs '000
USD	+/-5%	+/- 3,206,617	+/-5%	+/-569,761
KES	+/-5%	+/- 49,046,359	+/-5%	+/-64,666,305
TZS	+/-5%	+/- 9,895,632	+/-5%	+/-698,082
RWS	+/-5%	+/- 3,877,529	+/-5%	+/-696,461

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
	Ushs	Ushs	Ushs	Ushs
KES	34.57	31.83	34.77	34.29
USD	3,469.87	2,886.38	3,454.71	3,335.34
TZS	1.6319	1.5564	1.6084	1.6272
RWS	4.778	4.264	4.6944	4.6112

Interest rate risk

In broad terms, interest rate risk is the risk that concerns the sensitivity of the Fund's financial performance to changes in interest rates. The Fund's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price 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 Fund's business strategies. In order to minimize interest rate risk, the Fund has a policy whereby the approved investment commitments are matched to members' funds.

The Fund does not account for any fixed rate or variable rate financial assets at fair value through profit or loss. Therefore a change in interest rate at the statement of financial position date will not affect the Fund's surplus or deficit but would change the future performance of the Fund. The financial assets held at variable interest rates relate to the corporate bonds for African Development Bank (ADB). These balances are not significant when compared with the total financial assets of the Fund as at year end, hence a change of 1 basis point in the interest rate for these instruments would have an insignificant effect on the statement of comprehensive income.

The table below summarizes the exposure to interest rate risk. Included in the table are the Fund's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing dates and the maturity dates. All balances are in Ushs 000.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Assets	Matured Ushs'000	<3 months Ushs'000	3-12 months Ushs'000	> 1 year Ushs'000	Non-Interest bearing Ushs'000	Total Ushs'000
Cash and bank balances	-	-	-	-	27,800,138	27,800,138
Deposits with commercial banks	-	17,150,144	256,912,041	-	-	274,062,185
Equity securities held-for-trading	-	-	-	-	84,863,191	84,863,191
Trade and other receivables	-	-	-	-	42,645,834	42,645,834
Investments in securities held-to-maturity	-	300,692,173	87,274,294	4,247,778,953	-	4,635,745,420
Equity investments at fair value through profit or loss	-	-	-	-	901,377,895	901,377,895
Loans and advances	-	-	-	30,547,888	-	30,547,888
Total Assets	-	317,842,317	344,186,335	4,278,326,841	1,056,687,058	5,997,042,551
Liabilities						
Withholding tax payable	-	-	-	-	298,750	298,750
Trade and other payables	-	-	-	-	23,568,084	23,568,084
Total Liabilities	-	-	-	-	23,866,834	23,866,834
Gap as at 30 June 2016	-	317,842,317	344,186,335	4,278,326,841	1,032,820,224	5,973,175,717

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Assets	Matured Ushs'000	<3 months Ushs'000	3-12 months Ushs'000	> 1 year Ushs'000	Non Interest bearing Ushs'000	Total Ushs'000
Cash and bank balances	-	-	-	-	14,064,337	14,064,337
Deposits with commercial banks	-	35,047,004	216,020,905	-	-	251,067,909
Equity securities held-for-trading	-	-	-	-	90,134,171	90,134,171
Trade and other receivables	-	-	-	-	26,923,918	26,923,918
Investments in securities held-to-maturity	-	64,998,988	162,131,426	3,612,797,731	-	3,839,928,145
Equity investments at fair value through profit or loss	-	-	-	-	734,270,133	734,270,133
Loans and advances	-	-	-	34,464,037	-	34,464,037
Total Assets	-	100,045,992	378,152,331	3,647,261,768	865,392,559	4,990,852,650
Liabilities						
Withholding tax payable	-	-	-	-	1,208,340	1,208,340
Trade and other payables	-	-	-	-	27,011,883	27,011,883
Total Liabilities	-	-	-	-	28,220,223	28,220,223
Gap as at 30 June 2015	-	100,045,992	378,152,331	3,647,261,768	837,172,336	4,962,632,427

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value versus carrying amounts

Fair values of cash and deposits with commercial banks, trade receivables, loans and advances and other payables reasonably approximate their carrying amounts largely due to the short-term maturities of these instruments and/or because they carry interest rates that reasonably approximate to market rates.

The carrying amounts of equity securities held for trading and at fair value through profit or loss are the same as their fair values since the instruments are presented at fair value.

The financial instruments whose fair values differ from the carrying value as shown in the statement of financial position are analysed as follows:

	30 June 2016		30 June 2015	
	Carrying amount Ushs '000	Fair Value Ushs '000	Carrying amount Ushs '000	Fair Value Ushs '000
Investment securities held to maturity	4,657,771,191	4,340,142,020	3,839,928,145	3,626,822,419

Valuation hierarchy

IFRS 13 requires a three tiered disclosure for all financial assets and financial liabilities that are carried in the books of entities at fair value. This fair value disclosure is divided into three levels as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities e.g. quoted equity securities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (e.g. prices) or indirectly (e.g. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data. These items are not Level 1 products and contain at least one significant input parameter which could not be price tested from any of the methods described for Level 2 products. Examples are products where correlation is a significant input parameter and products where there is severe illiquidity in the markets for a prolonged period of time.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value measurement hierarchy

The following table provides the fair value measurement hierarchy of the Fund's assets and liabilities measured at fair value or those for which fair value is disclosed:

measured at fair value or those for which fair value is disclosed.					
		Fair value measurement using			
	Date of valuation	Total Ushs '000	Quoted price in active market (Level 1) Ushs '000	Significant observable input (Level 2) Ushs '000	Significant unobservable input (Level 3) Ushs '000
Financial instruments measured at fair value					
Quoted equities- at fair value through profit or loss (Note 18)	30-Jun-16	901,377,895	842,448,046	-	58,929,849
Quoted equities-held for trading (Note 15)	30-Jun-16	84,863,191	84,863,191	-	-
Investment Properties (Note 24)	30-Jun-16	139,345,000	-	-	139,345,000
Capital work in progress - Lubowa (Note 23)	30-Jun-16	245,077,907		-	245,077,907
Assets for which fair values are disclosed					
Investment securities held to maturity	30-Jun-16	4,635,745,420	-	4,635,745,420	-

There have been no transfers between the levels during the period.

Description of valuation techniques used and key inputs to valuation of held to maturity investments:

	Valuation technique	Significant observable inputs	Range (weighted average)			
			Uganda Treasury Bonds	Kenya Treasury bonds	Tanzania Bonds	Rwanda Bonds
Held to maturity investments	Market approach	Market interest rate for similar bonds	17.0% - 17.8% (17%)	7.08% - 16.97% (12%)	18%-19% (18.39%)	8.03%-13.5% (10.8%)

Shown below are the fair value changes arising from level 3 investments that have been recognised through profit and loss during the year ended 30 June 2016.

	2016 Ushs '000	2015 Ushs '000
Investment Properties (Note 24)	5,900,000	5,900,000
Capital work in progress - Lubowa (Note 23)	-	(7,000,000)
PTA Bank Shares- Class B	3,396,442	-

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Fund 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 Fund has access to a diverse funding base. Funds are raised mainly from members' contributions and reserves. The Fund continually assesses liquidity risk by identifying and monitoring changes in funding required in meeting business goals and targets set in terms of the overall Fund strategy. In addition, the Fund has a Management Investment Committee that meets on a regular basis to monitor liquidity risk, review and approve liquidity policies and procedures.

Exposure to liquidity risk

The table below analyses financial assets and financial liabilities into relevant maturity groupings based on the remaining period at 30 June 2016 to the contractual maturity date. All balances are in Ushs 000.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 June 2016	Matured Ushs'000	<3 months Ushs'000	3-12 months Ushs'000	1-5 years Ushs'000	> 5 years Ushs'000	Total Ushs'000
Financial assets						
Cash and bank balances	27,800,138	-	-	-	-	27,800,138
Deposits with commercial banks	-	17,150,144	115,341,460	141,571,582	-	274,063,186
Equity securities held-for-trading	-	-	-	84,863,191	-	84,863,191
Trade and other receivables	-	-	42,645,834	-	-	42,645,834
Investments in securities held-to-maturity	-	300,692,173	87,274,294	1,335,168,902	2,912,610,049	4,635,745,418
Equity investments at fair value through profit or loss	-	-	-	901,377,895	-	901,377,895
Loans and advances	-	-	-	30,547,888	-	30,547,888
Total financial assets	27,800,138	317,842,317	245,261,588	2,493,529,458	2,912,610,049	5,997,043,550
Financial liabilities						
Withholding tax payable	-	298,750	-	-	-	298,750
Other payables	-	23,168,935	-	-	-	23,168,935
Financial liabilities	-	23,467,685	-	-	-	23,467,685
Gap as at 30 June 2016	27,800,138	294,374,632	245,261,588	2,493,529,457	2,912,610,049	5,973,575,865

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 June 2015	Matured Ushs'000	<3 months Ushs'000	3-12 months Ushs'000	1-5 years Ushs'000	> 5 years Ushs'000	Total Ushs'000
Financial assets						
Cash and bank balances	14,064,337	-	-	-	-	14,064,337
Deposits with commercial banks	-	35,047,004	216,020,905	-	-	251,067,909
Equity securities held-for-trading	-	-	-	90,134,171	-	90,134,171
Trade and other receivables	-	-	26,923,918	-	-	26,923,918
Investments in securities held-to-maturity	-	48,208,231	157,668,060	1,244,977,276	2,386,520,993	3,837,374,560
Equity investments at fair value through profit or loss	-	-	-	734,270,133	-	734,270,133
Loans and advances	-	-	-	34,464,037	-	34,464,037
Total financial assets	14,064,337	83,255,235	400,612,883	2,103,845,617	2,386,520,993	4,988,299,065
Financial liabilities						
Withholding tax payable	-	1,208,340	-	-	-	1,208,340
Other payables	-	27,011,883	-	-	-	27,011,883
Financial liabilities	-	28,220,223	-	-	-	28,220,223
Gap as at 30 June 2015	14,064,337	55,035,012	400,612,883	2,103,845,617	2,386,520,993	4,960,078,842

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's loans and advances, trade and other receivables, deposits with commercial banks and investments in government and corporate bonds. For risk management reporting purposes, the Fund considers all elements of credit risk exposure such as individual obligator default risk, country and sector risk.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Management Investment Committee. The Investments Department is responsible for oversight of the Fund's credit risk, including:

- Formulating credit policies, covering collateral requirements and credit assessments, risk grading and reporting. Documentary, legal procedures and compliance with regulatory and statutory requirements is done in consultation with the Fund's Legal and Compliance Department.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Management Investment Committee. Larger facilities require approval by the Board of Directors as appropriate.
- Reviewing compliance of investment mix with agreed exposure limits, including those for selected industries, country risk and product types. The Fund's Investment Committee is responsible for monitoring the credit quality of investments and ensuring that appropriate corrective action is taken and providing advice, guidance and specialist skills to business units to promote best practice throughout the Fund in the management of credit risk.

The Investment department is required to implement the Fund's credit policies and procedures, with credit approval authorities delegated from the Fund's Board of Directors. The Investment department is responsible for the quality and performance of the Fund's investment portfolio and for monitoring and controlling all credit risks in the Fund's portfolio, including those subject to Board approval.

Regular audits of the Investment department and the Fund's credit processes are undertaken by the Internal Audit department.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure as at the statement of financial position date was:

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Note	2016 Ushs 000	2015 Ushs 000
Bank balances		27,780,964	13,992,490
Deposits due from banks	14	274,062,186	251,067,909
Trade and other receivables	16	42,645,834	32,094,149
Investment securities held-to-maturity	17	4,635,745,420	3,837,374,560
Loans and advances	19	<u>52,298,391</u>	<u>55,816,808</u>
Total		<u>5,032,532,795</u>	<u>4,190,345,916</u>

The concentration of credit risk for loans at amortised costs as at the reporting date was:

	2016 Ushs 000	2015 Ushs 000
Housing Finance Bank Limited	29,666,667	33,333,333
Uganda Clays Limited	20,592,838	21,352,771
Staff loans	<u>2,038,886</u>	<u>2,462,090</u>
Total	<u>52,298,391</u>	<u>57,148,194</u>

The ageing of loans at amortized cost as at the statement of financial position date was as follows:

	30 June 2016		30 June 2015	
	Gross Ushs 000	Impairment Ushs 000	Gross Ushs 000	Impairment Ushs 000
Neither past due nor impaired	31,705,553	-	35,795,423	-
Past due 30-60 days	-	-	-	-
Past due 31-120 days	-	-	-	-
Past due 120-360 days	20,592,838	(20,592,838)	21,352,771	(21,352,771)
More than a year	-	-	-	-
	52,298,391	(20,592,838)	57,148,194	(21,352,771)

As at the reporting date, there was no impairment loss allowances in respect of held to maturity investments.

The concentrations of credit risk for trade and other receivables as at the reporting date by the type of receivables was as follows:

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2016	2015
	Ushs 000	Ushs 000
Rent receivable	2,993,632	2,181,118
Contributions receivable	889,095	889,095
Staff advances	174,131	195,483
Cash advances to investment managers	2,306,268	2,088,201
Dividends receivable	31,426,372	16,855,150
Trade receivables	9,360,131	8,973,910
VAT recoverable	-	(420,194)
Total	<u>47,149,629</u>	<u>30,762,763</u>

The ageing of trade and other receivables as at the reporting date was as follows:

	30-Jun-16		30-Jun-15	
	Gross Ushs 000	Impairment Ushs 000	Gross Ushs 000	Impairment Ushs 000
Neither past due nor impaired	34,451,820	-	23,008,855	-
Past due 30-60 days	1,751,986	-	-	-
Past due 31-120 days	-	-	5,854	(19,698)
Past due 120-360 days	2,496,864	-	999,690	(899,721)
Past due 360 days	8,448,959	(8,448,959)	6,748,364	(6,748,364)
	47,149,629	(8,448,959)	30,762,763	(7,667,783)

Based on historical default rates, the Fund believes that no impairment allowance is necessary in respect of trade receivables not past due by 90 days.

The allowance account in respect of trade and other receivables (as per Note 16) is used to record impairment losses unless the Fund is satisfied that no recovery of the amount owing is possible. At that point the amount considered irrecoverable is written off against the financial asset directly.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Categories of financial assets and financial liabilities

The fair values of financial assets and liabilities together with the carrying value shown in the balance sheet are analysed as follows

	Carrying Amount		Fair value	
	2016	2015	2016	2015
	Ushs 000	Ushs 000	Ushs 000	Ushs 000
FINANCIAL ASSETS				
Held-for-trading				
Investment securities held-for-trading	84,863,191	90,134,171	84,863,191	90,134,171
Financial assets at fair value through profit or loss				
Equity investments	901,377,895	734,270,134	901,377,895	734,270,134
Held-to-maturity Investments				
Deposits with commercial banks	274,062,186	251,067,909	274,062,186	251,067,909
Investments in securities held-to-maturity	<u>4,635,745,420</u>	<u>3,837,374,560</u>	<u>4,635,745,420</u>	<u>3,837,374,560</u>
Total	<u>4,909,807,606</u>	<u>4,088,442,469</u>	<u>4,909,807,606</u>	<u>4,088,442,469</u>
Financial Assets at amortised cost				
Cash and bank balances	27,800,138	14,064,337	27,800,138	14,064,337
Trade and other receivables	42,645,834	26,923,918	42,645,834	26,923,918
Loans and advances	<u>30,547,888</u>	<u>34,464,037</u>	<u>30,547,888</u>	<u>34,464,037</u>
	<u>100,993,860</u>	<u>75,452,292</u>	<u>100,993,860</u>	<u>75,452,292</u>
Total financial assets	<u>5,997,042,552</u>	<u>4,988,299,066</u>	<u>5,997,042,552</u>	<u>4,988,299,066</u>
FINANCIAL LIABILITIES				
Financial liabilities at amortised cost				
Other payables	<u>23,568,084</u>	<u>27,011,883</u>	<u>23,568,084</u>	<u>27,011,883</u>

e) Capital management risk

The primary source of capital used by the Fund is member contributions and income from investments. The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Board. There have been no significant changes in the Fund's capital management policies and processes and capital structure during the past year and previous year.

An important aspect of the Fund's overall capital management process is the setting of target risk and inflation adjusted rates of return, which are aligned to performance objectives and ensure that the Fund is focused on the creation of value for the members. The Fund's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, and taking appropriate actions that will provide the target return in light of changes in economic conditions and risk characteristics.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016**

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Capital management risk (continued)

The Fund seeks to optimise the structure and investment of capital to ensure that it consistently maximises returns to its members within an acceptable risk appetite. The NSSF Act provides that members must be provided with a minimum return of at least 2.5%. An interest rate of 11% was declared for the year 2016 (2015: 13%).

39. ESTABLISHMENT

The Fund was established in Uganda under Section 2 of the NSSF Act (Cap 222).

40. SUBSEQUENT EVENTS

There were no material events occurring after the reporting date which had an impact on the financial position or results of the Fund.

41. PRIOR YEAR ADJUSTMENTS

The adjustment relates to an overstatement of coupon interest in prior years on investments in securities held to maturity and measured at amortised cost. Consequently, carrying values of investments and opening reserves were overstated by Ushs 19,472,187. These are mainly long term bonds with maturity periods ranging between 5 and 30 years. Accordingly comparatives have been adjusted to reflect the effect of this overstatement as shown below.

	As previously reported	Effect of restatement	As Restated
	Ushs 000	Ushs 000	Ushs 000
At 30 June 2014.			
Statement of Financial Position			
Investments in securities held-to-maturity	2,792,735,207	(19,472,187)	2,773,263,020
Members' Funds and Reserves			
Accumulated surplus	170,261,219	(19,472,187)	150,789,032

The net adjustment is summarised as follows:

	Ushs'000
Gross amount	23,257,887
Withholding Tax on Interest	(3,785,700)
	<u>19,472,187</u>

