

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE NATIONAL SOCIAL SECURITY FUND
FOR THE YEAR ENDED 30th JUNE, 2017

OFFICE OF THE AUDITOR GENERAL
KAMPALA, UGANDA

**NATIONAL SOCIAL SECURITY FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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**NATIONAL SOCIAL SECURITY FUND
FUND INFORMATION
FOR THE YEAR ENDED 30 JUNE 2017**

DIRECTORS

Mr. Patrick Byabakama Kaberenge	Chairman
Mr. Pius Bigirimana	Member
Mr. Patrick Ocailap	Member
Mrs. Sarah Walusimbi	Member
Mr. Nelson Wafana	Member
Mr. Andrew Stewart Obita	Member
Mrs. Penninah Tukamwesiga	Member
Mrs. Florence Namatta Maweje	Member
Mr. Richard Byarugaba	Managing Director

REGISTERED 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 2017**

BANKERS (cont'd)

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

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

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

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

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

DFCU Bank Limited
Plot 26, Kyadondo Road
P.O. Box 70,
Kampala
Uganda
(On 27 January 2017,dfcu Bank took
over the assets of crane bank)

ADVOCATES

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

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

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

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

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

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

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

**NATIONAL SOCIAL SECURITY FUND
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2017**

The directors submit their report together with the audited financial statements for the year ended 30 June 2017 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. Incorporation

The Fund is a body corporate established by an Act of Parliament and is domiciled in Uganda and is licensed as a Retirement Benefit Scheme under Uganda Retirement Benefits Regulatory Act (2011).

2. 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.

3. Results from operations

The results of the Fund for the year ended 30 June 2017 are set out on page 9.

4. 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 2017 was 11.23% (2016: 12.3%).

5. Reserves and accumulated members' funds

The reserves of the Fund and the accumulated members' funds are set out on page 11-12.

6. 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.

7. Directors

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

8. 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 of Uganda or an auditor appointed by him to act on his behalf. For the year ended 30 June 2017, M/s KPMG Certified Public Accountants were appointed to act on behalf of the Auditor General.

9. Approval of the financial statements

The financial statements were approved at the meeting of the directors held on...20/09/2017.

By order of the board,

.....
Mr. Richard Wejuli Wabwire

Corporation Secretary

Date: 21/09/2017

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2017**

The Uganda Retirement Benefits Regulatory Authority (URBRA) Act 2011 and Regulations require the Directors to make available to the Fund's members and other parties, audited financial statements for each financial year which show a true and fair view of the state of affairs of the Fund as at the end of the financial year.

It also requires the Directors to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund and safeguarding the assets of the Fund.

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the URBRA Act and National Social Security Fund (NSSF) Act 1985, and for such internal control as directors determined is necessary to enable the preparation of financial statements, whether due to fraud or error.

The Board of Directors confirm that, during the period under review, in the execution of their duties they have complied with the duties imposed by URBRA Act and the NSSF Act, the directors confirm that:

- adequate accounting records are kept inclusive of proper minutes of all resolutions passed by the Board of Directors; and for taking such steps as are reasonably open to them to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities,
- proper internal control systems were employed by or on behalf of the Fund;
- adequate and appropriate information was communicated to the members including their rights, benefits and duties in terms of the rules of the Fund;
- reasonable steps to ensure that contributions, where applicable, were paid timely to the Fund;
- expert advice was obtained on matters where they lacked sufficient expertise;
- the rules, operation and administration of the Fund complied with the URBRA Act and all applicable legislations; and
- funds were invested and maintained in accordance with the Fund's investment policy statement and Investment Regulations issued by URBRA.

Approval of the annual financial statements

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with IFRS and the NSSF Act. The Directors are of the opinion that the financial statements give a true and fair view of the financial affairs of the Fund and its operating results.

The Directors believe that the auditor was given unrestricted access to all financial information and all representations made to them during their audit were valid and appropriate.

Notwithstanding the above-mentioned information, the Directors wish to draw attention to the following:

The Fund did not appoint a custodian for internally managed investments as required by section 60 (2) of the URBRA Act.

These financial statements:

- were approved by the Board of Directors on 20 September 2017;
- are to the best of the Directors knowledge and belief confirmed to be complete and correct;
- fairly represent the net assets of the Fund as at 30 June 2017 as well as the results of its activities for the period then ended in accordance with IFRS.

The Directors confirm that for the period under review, the National Social Security Fund has submitted all regulatory and other returns and any other information as required by the provision of the URBRA Act.

Nothing has come to the attention of the Directors to indicate that the Fund will not be able to meet its obligations for the next twelve months from the date of this statement and the requirements of the URBRA Act.

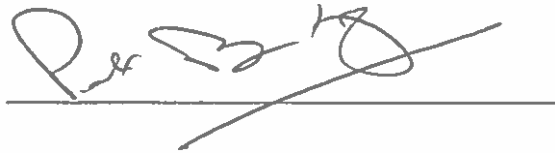
**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2017**

The Directors confirm that for the period under review, the National Social Security Fund has submitted all regulatory and other returns and any other information as required by the provision of the URBRA Act.

Nothing has come to the attention of the Directors to indicate that the Fund will not be able to meet its obligations for the next twelve months from the date of this statement and the requirements of the URBRA Act.

Mr. Patrick Byabakama Kaberenge
Chairman

:



Mr. Richard Byarugaba
Managing Director

:



Andrew Stewart Obita
Director

:



Date :21/09/.....2017

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
NATIONAL SOCIAL SECURITY FUND (NSSF)
FOR THE YEAR ENDED 30TH JUNE, 2017**

THE RT. HON. SPEAKER OF PARLIAMENT

Part "A" of this report sets out my opinion on the financial statements. Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

PART "A"

Opinion

I 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 2017 and 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 as set out on pages 9 to 79.

In my opinion, the financial statements give a true and fair view of the financial position of National Social Security Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Uganda Retirement Benefits Regulatory Authority Act.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Emphasis of matter

I draw attention to Note 35(b) of 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 42.2 billion to 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. My opinion is not qualified in respect of this matter. My report in the prior year contained an emphasis of matter paragraph in this regard.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Fund Information, the Directors' Report and the Statement of Directors' Responsibilities, but does not include the financial statements and My audit report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, Uganda Retirement Benefits Regulatory Act, National Social Security Act and for such internal

control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility as required by Article 163 of the Constitution of the Republic of Uganda and Sections 13 and 19 of the National Audit Act, 2008 is to audit and express an opinion on these statements based on my audit.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



John F.S Muwanga
AUDITOR GENERAL

26 September, 2017

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2017 Ushs'000	2016 Ushs'000
COMPREHENSIVE INCOME			
Revenue			
Interest income	5	781,099,059	658,839,465
Rental income	6	12,061,467	11,464,128
Dividend income	7	<u>52,311,094</u>	<u>37,686,334</u>
Total revenue		<u>845,471,620</u>	<u>707,989,927</u>
Other income			
Other operating income	8	27,168,320	29,878,904
Fair value gain/(loss) from equity investments at fair value through profit or loss	18	<u>21,877,461</u>	<u>(74,373,213)</u>
Total other income		<u>49,045,781</u>	<u>(44,494,309)</u>
Expenditure			
Administrative expenses	9	(75,560,247)	(59,759,558)
Other operating expenses	10	(15,199,781)	(15,643,520)
Amortisation of intangible assets	25	(1,615,894)	(1,477,359)
Depreciation of property and equipment	26	<u>(3,644,287)</u>	<u>(3,161,968)</u>
Total expenditure		<u>(96,020,209)</u>	<u>(80,042,405)</u>
Share of results of equity accounted investees, net of tax	21	<u>24,548,507</u>	<u>10,321,517</u>
Surplus from operations		823,045,699	593,774,730
Interest transfer to members	31	<u>(681,404,864)</u>	<u>(597,285,997)</u>
Surplus/(Loss) before tax	11	141,640,835	(3,511,267)
Income tax expense (withholding tax as final tax)	12(a)	<u>(130,637,624)</u>	<u>(102,331,080)</u>
Surplus/(Loss) for the year		<u>11,003,211</u>	<u>(105,842,347)</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:-share of results of equity accounted investees</i>	21	<u>(6,889,710)</u>	-
Total other comprehensive income for the year, net of tax		<u>(6,889,710)</u>	-
Total comprehensive income for the year, net of tax		<u>4,113,501</u>	<u>(105,842,347)</u>

The accounting policies and notes on pages 14 to 79 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 2017**

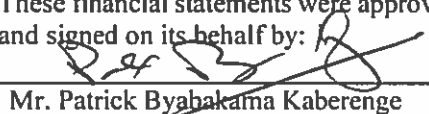
	Note	2017 Ushs'000	2016 Ushs'000
Total comprehensive income for the year, net of tax		4,113,501	(105,842,347)
DEALINGS WITH MEMBERS			
Contributions received during the year	31	916,908,807	785,498,304
Benefits paid	31	<u>(278,254,718)</u>	<u>(238,797,166)</u>
Net dealings with members		<u>638,654,089</u>	<u>546,701,138</u>
Net increase in scheme funds during the year		<u>642,767,590</u>	<u>440,858,791</u>

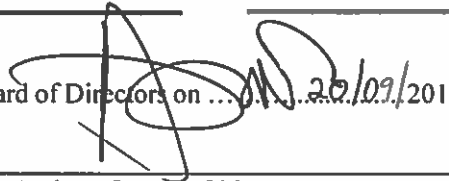
The accounting policies and notes on pages 14 to 79 form an integral part of these financial statements.

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
AS AT 30 JUNE 2017**

	Note	30 June 2017 Ushs'000	30 June 2016 Ushs'000
ASSETS			
Cash and bank balances	13	56,242,869	27,800,138
Deposits with commercial banks	14	224,775,364	274,062,186
Trade and other receivables	16	45,038,256	42,847,324
Equity securities held-for-trading	15	88,373,503	84,863,191
Tax deposit receivable	12 (c)	25,323,522	25,323,522
Investments in securities held-to-maturity	17	5,747,059,614	4,635,745,420
Equity investments at fair value through profit or loss	18	899,971,553	901,377,895
Loans and advances	19	26,879,508	30,547,888
Inventories (Office supplies)	20	1,187,304	-
Investments accounted for under the equity method	21	266,525,086	80,319,762
Capital work-in-progress	23	323,834,522	314,799,944
Investment properties	24	188,210,449	139,345,000
Intangible assets	25	5,770,533	4,400,244
Property and equipment	26	10,966,840	11,649,369
Tax claimable	28	13,454,787	12,065,756
Finance lease	27	650,000	650,000
Total Assets		7,924,263,710	6,585,797,639
LIABILITIES			
Other payables	29	27,819,801	23,329,307
Provisions for litigation	30	12,801,429	12,277,112
Total Liabilities		40,621,230	35,606,419
NET ASSETS		7,883,642,480	6,550,191,220
MEMBERS' FUNDS AND RESERVES			
Accumulated members' funds	31	7,623,061,300	6,303,685,942
Reserve account	32	90,069,937	80,107,536
Accumulated surplus		170,511,243	166,397,742
TOTAL MEMBERS' FUNDS AND RESERVES		7,883,642,480	6,550,191,220

These financial statements were approved for issue by the Board of Directors on ... 20/09/2017
and signed on its behalf by:


Mr. Patrick Byahakama Kaberenge
Chairman:


Andrew Stewart Obita
Director:


Mr. Richard Byarugaba
Managing Director:

21/09/2017

The accounting policies and notes on pages 14 to 79 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 2017**

	Note	Reserve Account Ushs 000	Accumulated Members' Funds Ushs 000	Accumulated Surplus Ushs 000	Total Ushs 000
At 1 July 2015					
Surplus for the year		71,316,122	5,166,761,915	272,240,089	5,510,318,126
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 reallocated arising from arrears recovered	32	-	(15,916,775)	-	(15,916,775)
Provision for interest to members	31	<u>4,239,191</u>	<u>606,139,664</u>	<u>-</u>	<u>610,378,855</u>
At 30 June 2016		<u>80,107,536</u>	<u>6,303,685,942</u>	<u>166,397,742</u>	<u>6,550,191,220</u>
At 1 July 2016					
Surplus for the year		-	-	11,003,211	11,003,211
Other comprehensive income, net of tax	21	-	-	(6,889,710)	(6,889,710)
Special contributions received	32(a)	5,615,923	-	-	5,615,923
Members' contributions received	31	-	916,908,807	-	916,908,807
Benefits paid to members	31	-	(278,254,718)	-	(278,254,718)
Interest allocated to members arising from arrears recovered	31	-	4,065,342	-	4,065,342
Provision for interest to members	31	<u>4,346,478</u>	<u>676,655,927</u>	<u>-</u>	<u>681,002,405</u>
At 30 June 2017		<u>90,069,937</u>	<u>7,623,061,300</u>	<u>170,511,243</u>	<u>7,883,642,480</u>

The accounting policies and notes on pages 14 to 79 form an integral part of the financial statements.

**NATIONAL SOCIAL SECURITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2017 Ushs '000	2016 Ushs '000
Net cash generated from/(used) in operating activities	33	(52,032,730)	(70,902,122)
Investing activities			
Purchase of software	25	(2,986,183)	(19,807)
Purchase of property and equipment	26	(2,961,757)	(6,389,018)
Proceeds from sale of fixed assets		141,100	614,021
Purchase of investment properties	24	(29,845,654)	-
Purchase of capital work-in-progress	23	(10,134,666)	(3,535,771)
Purchase of equity investments at fair value through profit or loss		(101,222,750)	(231,562,872)
Purchase of shares in investments accounted for under the equity method		(59,448,574)	-
Purchase of equity investments held for trading		(3,634,838)	(9,310,293)
Proceeds from disposal of equity investments held for trading		1,607,354	138,484
Purchase of held to maturity investments		(1,356,713,469)	(968,333,554)
Maturities of held to maturity investments		255,833,542	227,479,830
Purchase of deposits with commercial banks		(305,667,007)	(573,670,125)
Maturities of deposits with commercial banks		355,491,755	555,660,045
Maturities of loans and advances		7,782,330	8,385,483
Interest received from held to maturity investments		633,955,164	500,664,480
Interest received from commercial bank deposits		36,089,590	34,589,299
Dividends received from associates		<u>13,854,170</u>	<u>489,739</u>
Net cash flows used in investing activities		(567,859,893)	(464,800,059)
Financing activities			
Benefits paid out to members	31	(278,254,718)	(238,797,166)
Contributions received from members	31	916,908,807	785,498,304
Interest recovered on arrears		4,065,342	(2,176,321)
Special contributions received	32	<u>5,615,923</u>	<u>4,913,165</u>
Net cash flows from financing activities		<u>648,335,354</u>	<u>549,437,982</u>
Increase in cash and cash equivalents		28,442,731	13,735,801
Cash and cash equivalents at 1 July		<u>27,800,138</u>	<u>14,064,337</u>
Cash and cash equivalents at 30 June	13	<u>56,242,869</u>	<u>27,800,138</u>

The accounting policies and notes on pages 14 to 79 form an integral part of these financial statements.

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 2017, 20,084 beneficiaries were paid (2016: 16,626).

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 2017.

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.

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's representation on the Board by of the Investee Company is 20 to 50 percent for investees where the shareholding is 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 changes in net assets available for benefits. 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 changes in net asset available for benefits.

(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 held 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.

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 them 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 write-off is recovered in the future, the recovery is credited to other income 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 offset 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) 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.

(h) 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)

(i) 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.

(j) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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.

(l) 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.

(m) 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.

(n) 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.

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

(o) 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.

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 comprises of cash and bank that are available on demand as at the reporting date.

(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 and is treated as an expense.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Changes in accounting policies and disclosures

i) New and amended standards adopted by the fund

New amendments or interpretation effective for annual periods beginning on or after 1 January 2016 are summarised below:

New amendments or interpretation	Effective date
• IFRS 14 Regulatory Deferral Accounts	1 January 2016
• Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	
• Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	
• Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	
• Equity Method in Separate Financial Statements (Amendments to IAS 27)	
• Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	
• Disclosure Initiative (Amendments to IAS 1)	

The adoptions of these standards did not have a significant impact on the financial statements of the Fund.

ii) 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 2017, 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.

Disclosure Initiative (Amendments to IAS 7)

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

The adoption of these amendments will not have a significant impact on the financial statements of the Fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments provide additional guidance on the existence of deductible temporary differences which:

- depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period; and
- is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

The adoption of these amendments will not have a significant impact on the financial statements of the Fund.

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.

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

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.

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

Clarifying share-based payment accounting (Amendments to IFRS 2)

Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 *Share-based Payments*.

The amendments cover three accounting areas:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement of cash-settled share-based payments –The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.

Classification of share-based payments settled net of tax withholdings –The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.

Accounting for a modification of a share-based payment from cash-settled to equity-settled – The amendments clarify the approach that companies are to apply.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards.

The amendments are effective for annual periods commencing on or after 1 January 2018.

The adoption of these amendments will not have a significant impact on the financial statements of the Fund.

Transfers of Investment property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 *Investment property* on when a company should transfer a property asset to, or from, investment property

The amendments apply for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Fund is assessing the potential impact on its financial statements resulting from the application of the amendment to IAS 40.

IFRIC 22 Foreign Currency Transactions and Advance Considerations

When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 *The Effects of Changes in Foreign Exchange Rates* is not clear on how to determine the transaction date for translating the related item.

This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The interpretation applies for annual reporting periods beginning on or after 1 January 2018.

The adoption of these amendments will not have a significant impact on the financial statements of the Fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16 Leases

IFRS 16 was published in January 2016. It 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'). IFRS 16 replaces the previous leases Standard, IAS 17 *Leases*, and related Interpretations. IFRS 16 includes a single model for lessees which will result in almost all leases being included in the Statement of Financial Position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15.

The Fund is assessing the potential impact of IFRS 16 on the financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

The adoption of these changes will not have a material impact on the financial statements of the Fund.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 17 Insurance Contracts

IFRS 17 supersedes IFRS 4 *Insurance Contracts* and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model (“general model”) for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:

- Reinsurance contracts held;
- Direct participating contracts; and
- Investment contracts with discretionary participation features.

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.

The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity’s financial statements.

The standard is effective for annual periods beginning on or after 1 January 2021. Early adoption is permitted.

The adoption of this standard will not have a significant impact on the financial statements of the Fund.

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 IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

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 if available, the fair value for non-quoted equity instruments has been determined using the net asset value methodology and the fair value of held to maturity investments is determined using the discounted cash flow methodology.

(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 2017**

5. INTEREST INCOME

	2017	2016
	Ushs 000	Ushs 000
Interest income on short term deposits with banks	42,951,560	46,581,639
Interest income on government bonds: held-to-maturity	719,180,580	589,483,625
Interest income on corporate bonds: held-to-maturity	15,174,775	18,452,869
Interest income on loans measured at amortized cost	<u>3,792,144</u>	<u>4,321,332</u>
	<u>781,099,059</u>	<u>658,839,465</u>

All interest income arises from financial assets that are not at fair value through profit or loss.

6. RENTAL INCOME

	2017	2016
	Ushs 000	Ushs 000
Workers House	7,045,959	6,809,322
Social Security House	2,548,541	2,353,728
Service Charge	1,644,474	1,525,002
Others	<u>822,493</u>	<u>776,076</u>
	<u>12,061,467</u>	<u>11,464,128</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

	2017	2016
	Ushs 000	Ushs 000
Stanbic Bank Uganda Limited	1,545,017	817,546
Bank of Baroda (Uganda) Limited	124,891	124,891
New Vision Printing and Publishing Company Limited	750,000	750,000
DFCU Limited	742,794	640,767
Safaricom Limited	13,567,879	6,215,193
Umeme Limited	-	8,650,212
Equity Group Holdings Ltd	6,442,147	6,332,775
Kenya Commercial Bank (KCB)	6,516,750	4,199,969
Bank of Kigali	2,243,356	2,275,561
Tanzania Breweries	5,856,612	3,616,382
East Africa Breweries	3,287,382	1,729,595
Eastern and Southern African Trade and Development Bank (PTA Bank)	3,085,446	96,395
Other dividend income earned from fund managers	<u>8,148,820</u>	<u>2,237,048</u>
	<u>52,311,094</u>	<u>37,686,334</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

8. OTHER OPERATING INCOME

	2017	2016
	Ushs 000	Ushs 000
Gain on disposal of property and equipment	141,100	613,778
Clearance fees	40,540	72,062
Miscellaneous income	10,985,800	1,490,777
Fair value gain/(loss) on equity investments held for trading	1,689,964	(14,048,804)
(Loss)/gain on disposal of equity investments held for trading	(315,322)	22,349
Notional income on staff loans	340,027	174,171
Fines and penalties from defaulting employers: Note 32(b)	420,985	429,872
Fair value gain on investment property	19,019,795	6,225,029
Foreign exchange (loss)/gains	<u>(5,154,569)</u>	<u>34,899,670</u>
	<u>27,168,320</u>	<u>29,878,904</u>

Miscellaneous income mainly comprises of fees from sale of bid documents and insurance claims.

Foreign exchange (loss)/gains arose from (depreciation)/appreciation of foreign currencies against the Uganda Shilling which affected monetary foreign denominated assets and liabilities.

9. ADMINISTRATIVE EXPENSES

	2017	2016
	Ushs 000	Ushs 000
Staff costs (Note 9a)	42,590,308	38,347,611
Staff medical insurance	983,185	936,881
General staff and training expenses	4,443,893	3,566,701
Advertising and promotion	5,414,593	2,434,619
Auditors' remuneration	129,928	120,592
Bank charges and commission	199,030	13,648
Board expenses	847,656	572,584
Cleaning expenses	335,726	283,685
IT connectivity and internet	521,578	565,954
Directors' allowances	508,417	548,950
Professional fees	2,676,786	709,691
Legal fees	5,087,598	331,800
Motor vehicle fuel costs, maintenance & repairs	916,309	682,010
Printing and stationery	736,165	486,985
Subscriptions	342,892	275,101
Telephone, fax, telex and post	769,382	665,285
Travel and subsistence costs	2,889,626	2,267,584
Commission and brokerage fees	1,699,354	2,024,093
Uganda Retirement Benefits Regulatory Authority annual levy	4,022,953	4,604,932
Other administrative expenses	<u>444,868</u>	<u>320,852</u>
	<u>75,560,247</u>	<u>59,759,558</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

9. ADMINISTRATIVE EXPENSES (CONTINUED)		
	2017	2016
	Ushs 000	Ushs 000
a) Staff costs		
Leave pay	626,712	530,758
Overtime expenses	106,168	102,899
Salaries and wages	34,800,313	31,444,104
Social security contributions	3,768,186	3,327,093
Contributions to the staff provident fund	2,616,634	2,358,441
Gratuity	<u>672,295</u>	<u>584,316</u>
	<u>42,590,308</u>	<u>38,347,611</u>
Average number of employees: 522 (2016: 506)		
10. OTHER OPERATING EXPENSES		
	2017	2016
	Ushs 000	Ushs 000
Rent and rates	4,323,330	4,241,434
Electricity and water	1,661,580	1,552,840
Repairs and maintenance	5,872,157	5,545,840
Insurance	1,302,403	1,379,361
Security expenses	1,270,934	1,290,443
Research and library expenses	909,082	571,938
Fund manager expenses	(189,825)	56,049
Impairment loss provision for bad debts	<u>50,120</u>	<u>1,005,615</u>
	<u>15,199,781</u>	<u>15,643,520</u>
a) Impairment loss provision for bad debts		
Rent receivable (Note 16)	<u>50,120</u>	<u>1,005,615</u>
	<u>50,120</u>	<u>1,005,615</u>
11. SURPLUS BEFORE TAX		
Surplus before tax is arrived at after charging/(crediting):		
	2017	2016
	Ushs 000	Ushs 000
Amortisation of intangible assets (Note 25)	1,615,894	1,477,359
Depreciation of property and equipment (Note 26)	3,644,286	3,161,969
Gain on disposal of property and equipment	(141,100)	(613,778)
Auditors' remuneration	129,928	120,592
Directors' emoluments	508,417	548,950
Staff costs	42,590,308	38,347,611
Unrealised foreign exchange gains	5,228,361	(29,438,000)
Fair value (gains)/loss from equity instruments at FVTPL	(2,600,062)	74,373,212
Fair value (gains)/loss from equity instruments held for trading	(1,558,529)	14,048,450
Fair value (gain) on investment property	(6,181,365)	(5,831,318)

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

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 has accumulated trading losses amounting to Ushs 908 billion as at 30 June 2017 (2016: Ushs 819 billion).

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

	2017 Ushs 000	2016 Ushs 000
Surplus/(loss) from operations before tax	<u>134,751,121</u>	<u>(3,511,267)</u>
Tax calculated at 30%	40,425,338	(1,053,380)
Tax effect of;		
Expenses related to income taxed at source	14,764,350	11,164,257
Interest expense transferred to members' funds	119,928,101	96,985,999
Income taxed at source	(200,743,831)	(156,031,789)
Non- taxable income	(5,307,958)	(3,096,455)
Other non-deductible expenses	702,699	386,118
Unrecognised deferred tax credit(Note 12(b))	30,861,300	51,645,250
Unrecoverable withholding tax deducted at source	<u>130,637,624</u>	<u>102,331,080</u>
Statement of comprehensive income tax charge	<u>130,637,624</u>	<u>102,331,080</u>

(b) Deferred tax asset

Deferred tax is calculated on all temporary differences under the liability method using the principal tax rate of 30% (2016: 30%).

	At 30 June 2016 Ushs 000	Movement for the year Ushs 000	At 30 June 2017 Ushs 000
Deferred tax assets			
Unrealized foreign exchange losses	(34,523,209)	(1,796,948)	(36,320,157)
Provision for impairment loss on trade and other receivables	(8,940,546)	394,541	(8,546,005)
Bonus provision	(1,489,711)	(167,374)	(1,657,085)
Tax losses carried forward	<u>(245,703,911)</u>	<u>(26,662,462)</u>	<u>(272,366,373)</u>
	<u>(290,657,376)</u>	<u>(28,232,243)</u>	<u>(318,889,620)</u>
Deferred tax liabilities			
Unrealized foreign exchange gains	84,421,036	(8,602,961)	75,818,075
Fair value gains on investment properties	69,191,086	5,705,939	74,897,024
Fair value changes on equity instruments	39,245,277	506,989	39,752,266
Unrealised gains in investments with fund managers	3,702,056	-	3,702,056
Accelerated depreciation	<u>2,101,751</u>	<u>(239,024)</u>	<u>1,862,727</u>
	<u>198,661,205</u>	<u>2,629,057</u>	<u>(196,032,148)</u>
Net deferred tax asset	<u>(91,996,172)</u>	<u>(30,861,300)</u>	<u>(122,857,471)</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

12. TAX(CONTINUED)

	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	(8,709,166)	(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>(40,735,315)</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 deferred tax asset	<u>(40,350,920)</u>	<u>(51,645,250)</u>	<u>(91,996,170)</u>

The net deferred tax asset of Ushs 123 billion (2016: Ushs 92 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

	2017 Ushs 000	2016 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.

The carrying amount of the tax deposit approximate its fair value.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

13. CASH AND BANK BALANCES

	2017	2016
	Ushs 000	Ushs 000
Barclays Bank of Uganda Limited	523,225	1,198,851
Citibank Uganda Limited	2,099,237	322,767
Housing Finance Uganda Limited (Note 34)	103,541	15,758
Stanbic Bank Uganda Limited	17,484,918	14,424,123
*Standard Chartered Bank Uganda Limited	30,256,623	9,269,450
KCB Rwanda	1,322,625	10,234
Imperial Bank Limited	50,903	33,271
Ecobank Uganda Limited	236,640	2,183
Bank of Africa	566,868	113,745
Crane Bank Limited	-	427,003
Centenary Bank	298,951	552,387
DFCU Bank Limited	1,575,843	466,573
United Bank for Africa	45,251	58,551
Orient Bank Limited	197,749	182,245
Guaranty Trust Bank	90,142	-
Tropical Bank -collection account	70,122	50,036
Bank of Baroda Uganda Limited-collection account	138,154	42,335
Post Bank	104,431	123,727
Finance Trust Bank	44,505	48,057
Diamond Trust	770,065	427,976
NC Bank	73,653	11,692
Equity Bank	130,878	-
Commercial Bank of Africa	40,987	-
Cash at hand	<u>17,558</u>	<u>19,174</u>
	<u>56,242,869</u>	<u>27,800,138</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.

* See Note 14.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

14. DEPOSITS WITH COMMERCIAL BANKS

	2017 % in Class	2016 % in Class	2017 Ushs 000	2016 Ushs 000
Barclays Bank of Uganda Limited	5.6	4.6	12,525,389	12,523,501
Bank of Baroda Uganda Limited	4.7	6.6	10,506,626	17,973,214
Post Bank Uganda Limited	3.8	3.1	8,456,057	8,454,169
Crane Bank Limited	-	29.6	-	81,129,254
DFCU Bank Limited	11.1	2.1	24,913,169	5,711,747
Housing Finance Bank Limited (Note 34)	14.8	8.6	33,213,725	23,482,985
Orient Bank Limited	6.9	5.8	15,456,882	15,938,871
*Standard Chartered Bank Uganda Limited	29.1	29.3	65,513,847	80,409,006
Commercial Bank of Africa	3.6	1.2	8,163,708	3,161,820
Finca Uganda Limited	6.5	5.9	14,516,526	16,190,494
Uganda Finance Trust Limited	-	1.8	-	4,966,525
Tropical Bank Uganda Limited	4.6	-	10,244,749	-
Equity Bank Uganda Limited	4.5	-	10,006,027	-
Guarantee Trust Bank	<u>5.0</u>	<u>1.5</u>	<u>11,258,659</u>	<u>4,120,600</u>
	<u>100</u>	<u>100</u>	<u>224,775,364</u>	<u>274,062,186</u>

*There is a floating lien of Ushs. 29,980,000,000 placed on cash/ deposits with Standard Chartered Bank Uganda Limited. The cash and bank balance with Standard Chartered Bank is not excluded from cash and cash equivalents for purposes of the statement of cash flows as the Deposits are sufficient to settle the lien.

The deposits with commercial banks are analysed as follows:

Amounts due within three (3) months	-	17,150,144
Amounts due after three (3) months	<u>224,775,364</u>	<u>256,912,042</u>
	<u>224,775,3634</u>	<u>274,062,186</u>

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

	2017 Ushs 000	2016 Ushs 000
At 1 July	274,062,186	251,067,909
New placements / deposits	305,667,007	573,670,125
Maturities	(355,491,755)	(555,660,045)
Interest accrued	36,627,516	39,573,496
Interest received	<u>(36,089,590)</u>	<u>(34,589,299)</u>
At 30 June	<u>224,775,364</u>	<u>274,062,186</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 2017 was 15.73% (2016: 17.95%).

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017

15. EQUITY SECURITIES HELD-FOR-TRADING

	2017	2016
	Ushs 000	Ushs 000
GenAfrica	5,544,860	4,816,640
Pinebridge Investments	<u>82,828,643</u>	<u>80,046,551</u>
Total	<u>88,373,503</u>	<u>84,863,191</u>

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.

	%	%	Number of Shares Held		Market Value	
	in	in				
	class	class	2017	2016	2017	2016
	2017	2016			Ushs'000	Ushs'000
Uganda Securities Exchange						
Stanbic Bank (U) Limited	25.9	14.6	113,595,430	12,525,000	3,048,240	1,778,550
DFCU Limited	37.7	35.8	5,835,580	5,435,580	4,429,205	4,348,464
New Vision Printing and Publishing Company Limited	10.0	10.0	2,185,857	2,185,857	1,178,177	1,213,151
Umeme Limited	13.8	23.9	3,654,088	111,821,230	1,625,197	290,735
Uganda Clays Limited	1.0	1.2	9,575,568	9,575,568	114,907	143,634
Bank Of Baroda	<u>11.5</u>	<u>14.5</u>	<u>12,525,000</u>	<u>3,529,364</u>	<u>1,352,700</u>	<u>1,764,681</u>
	<u>100</u>	<u>100</u>			<u>11,748,426</u>	<u>9,539,215</u>
Nairobi Stock Exchange						
Athi River Mining	1.3	1.9	1,026,025	1,026,025	838,795	1,141,721
Bamburi Cement Limited	4.8	4.6	465,845	460,745	3,131,525	2,753,864
Barclays Bank Kenya Limited	3.4	2.7	6,090,000	4,790,000	2,223,465	1,599,038
BAT Kenya Limited	13.0	13.7	283,700	283,700	8,512,909	8,237,548
Britam Holdings Limited	3.7	2.2	5,200,000	2,700,000	2,404,922	1,333,227
Centum Investments (ICDC)	1.8	1.8	720,690	720,690	1,149,424	1,102,690
CFC Stanbic Holdings	3.1	3.6	773,000	773,000	2,023,527	2,150,412
Co-operative Bank of Kenya Ltd	3.1	3.1	3,290,387	2,865,387	2,010,019	1,847,871
Diamond Trust Bank Kenya Ltd	8.2	8.2	947,953	853,475	5,397,096	4,949,349
East African Breweries Limited	14.2	12.7	1,017,666	749,466	9,265,940	7,620,259
Equity Group Holdings Limited	7.4	8.0	3,618,442	3,232,042	4,819,250	4,844,339
I&M Holdings Ltd	2.1	2.2	367,700	299,400	1,401,133	1,329,994
Kenya Airways Ltd	-	0.4	-	1,428,000	-	216,008
Kenya Commercial Bank	7.5	7.2	3,689,574	3,175,974	4,923,544	4,330,142
Kenya Power & lighting	1.4	1.6	2,830,750	2,830,750	890,278	969,594
Nation Media Group	2.0	2.7	310,712	310,712	1,277,113	1,620,696
NIC Bank Limited	1.7	3.9	863,187	1,826,587	1,105,742	2,364,838
Safaricom Limited	18.8	16.4	15,956,400	13,000,000	12,316,404	9,848,848
Standard Chartered Bank Kenya Ltd	2.7	2.3	227,019	203,317	1,755,591	1,386,204
TPS Serena Limited	-	0.3	-	247,013	-	180,381
WPP Scan group Limited	<u>-</u>	<u>0.7</u>	<u>-</u>	<u>565,600</u>	<u>-</u>	<u>393,361</u>
	<u>100</u>	<u>100</u>			<u>65,446,677</u>	<u>60,220,384</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

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

Dar es Salaam Stock Exchange

	% in	% in	Number of shares		Market Value	
	Class	Class	held		2017	2016
	2017	2016	2017	2016	Ushs'000	Ushs'000
Tanzania Breweries Limited	88.2	81.2	460,000	460,000	9,862,400	10,143,535
CRDB Bank Plc	<u>11.8</u>	<u>18.8</u>	4,700,000	4,700,000	<u>1,316,000</u>	<u>2,343,439</u>
	<u>100</u>	<u>100</u>			<u>11,178,400</u>	<u>12,486,974</u>

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

	2017	2016
	Ushs 000	Ushs 000
As at 1 July	84,863,191	90,134,171
Purchases	3,634,838	9,310,293
Disposals	(1,607,354)	(138,483)
Fair value gain/(loss)	1,558,529	(14,048,450)
Foreign exchange loss	<u>(75,701)</u>	<u>(394,340)</u>
As at 30 June	<u>88,373,503</u>	<u>84,863,191</u>

The trading prices at the last date of trading for the years ended 30 June 2017 and 2016 were as follows:

	2017			2016		
	Ushs	Kshs	Tshs	Ushs	Kshs	Tshs
Stanbic Bank (U) Limited	27.00	-	-	26.00	-	-
DFCU Limited	759.00	-	-	800.00	-	-
New Vision Printing and Publishing Company Limited	539.00	-	-	555.00	-	-
Umeme Limited	425.00	-	-	500.00	-	-
Uganda Clays Limited	12.00	-	-	15.00	-	-
Bank of Baroda (Uganda)	108.00	-	-	142.00	-	-
BAT Kenya Limited	29,412.16	847	-	29,036.12	835.00	-
Safaricom Limited	790.00	22.75	-	617.23	17.75	-
Kenya Commercial Bank	1,310.87	37.75	-	1,173.62	33.75	-
East African Breweries Limited	8,993.80	259	-	9,667.12	278.00	-
Bamburi Cement Ltd	6,458.87	-	-	5,911.55	170.00	-
Equity Group Holdings Limited	1,310.87	37.75	-	1,338.79	38.50	-
NIC Bank Limited	1,163.29	33.50	-	1,269.24	36.50	-
Barclays Bank Kenya Limited	345.51	9.95	-	333.83	9.60	-
Athi River Mining	711.86	20.50	-	1,112.76	32.00	-
Nation Media Group	3750.31	108.00	-	5,216.07	150.00	-
Diamond Trust Bank Kenya Limited	5,556.02	160.00	-	5,737.68	165.00	-
Standard Chartered Bank Kenya Limited	7,222.82	208.00	-	6,780.89	195.00	-
Centum Investments (ICDC)	1,426.43	41.50	-	1,530.05	44.00	-
Kenya Power & lighting	276.06	7.95	-	342.52	9.85	-
WPP Scan group Limited	703.18	20.25	-	695.48	20.00	-
Co-operative Bank Kenya Limited	588.59	16.95	-	561.60	16.15	561.60
CFC Stanbic Holdings	2,465.48	71.00	-	2,781.90	80.00	2,781.90

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

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

	2017			2016		
	Ushs	Kshs	Tshs	Ushs	Kshs	Tshs
Britam Holdings Limited	439.27	12.65	-	493.79	14.20	493.79
I&M Holdings Limited	3,576.69	103.00	-	3,825.12	110.00	-
Kenya Airways	175.36	5.05	-	151.27	4.35	-
TPS Serena Limited	772.63	22.25	-	730.25	21.00	-
Kenol Kobil Limited	486.15	14.00	-	-	-	-
Tanzania Breweries Limited	21,551.22	-	13,400.00	22,051.16	-	13,710.0
CRDB Bank Plc	281.45	-	175.00	498.60	-	310.00
Tanzania Portland Cement	2,894.94	-	1,800.00	3,844.08	-	2,390.00

16. TRADE AND OTHER RECEIVABLES

	2017	2016
	Ushs 000	Ushs 000
Prepayments	2,280,852	2,787,499
Staff advances	108,449	174,131
Trade receivables	8,287,816	9,360,131
Contributions receivable	889,095	889,095
Rent receivable	3,501,173	2,993,632
Cash advances to investment managers	1,219,066	2,306,268
Deferred staff expense	817,638	1,157,665
Dividends receivable	33,604,493	31,627,862
VAT Recoverable	2,223,518	-
Provisions for impairment loss	<u>(7,893,844)</u>	<u>(8,448,959)</u>
	<u>45,038,256</u>	<u>42,847,324</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, these have been impaired.

Provisions for impairment loss is analysed as follows:-

	2017	2016
	Ushs 000	Ushs 000
At 1 July	8,448,959	7,667,783
Charge for the year	-	1,005,615
Utilised	<u>(555,115)</u>	<u>(224,439)</u>
At 30 June	<u>7,893,844</u>	<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 2017**

17. INVESTMENTS IN SECURITIES HELD-TO-MATURITY

	2017 % in Class	2016 % in Class	2017 Ushs 000	2016 Ushs 000
Treasury bonds	98	96	5,656,920,144	4,501,133,775
Corporate bonds	2	4	90,139,470	134,611,645
	<u>100</u>	<u>100</u>	<u>5,747,059,614</u>	<u>4,635,745,420</u>

The investments are analysed as follows:

Maturing within 3 months	45,505,610	300,692,174
Maturing after 3 months but within 1 year	259,682,437	87,274,294
Maturing after 1 year	5,441,871,567	4,247,778,952
	<u>5,747,059,614</u>	<u>4,635,745,420</u>

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

	2017 Ushs 000	2016 Ushs 000
As at 01 July	4,635,745,420	3,839,928,145
Purchases	1,356,713,469	968,333,554
Maturities	(255,833,542)	(227,479,830)
Interest accrued	647,490,434	538,693,390
Interest received	(633,955,164)	(500,664,480)
Foreign exchange (loss)/gains	(3,101,003)	16,934,641
As at 30 June	<u>5,747,059,614</u>	<u>4,635,745,420</u>

The yield rates on the treasury bonds ranged from 10.81% to 21.22% (2016: 10.75% to 21.25%) and the treasury bonds mature between 1 to 15 years. The interest rates for corporate bonds ranged from 10.97% to 14.7% (2016: 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

	2017 % in Class	2016 % in Class	2017 % Held	2016 % Held	2017 Ushs 000	2016 Ushs 000
Bank of Baroda (Uganda) Limited	0.6	0.9	2.00	2.00	5,395,275	7,093,788
DFCU Limited	2.5	3.0	5.93	5.93	22,381,132	23,590,126
Safaricom Limited	21.0	19.0	0.60	0.60	189,797,002	147,025,409
Centum Investments Limited	0.7	0.8	0.73	0.73	6,276,292	6,468,000
Stanbic Bank Uganda Limited	4.0	3.5	2.05	2.05	36,049,507	27,251,520
New Vision Printing and Publishing Company Limited	0.9	1.1	19.61	19.61	8,085,000	8,325,000
Bank of Kigali	4.9	7.2	6.32	6.32	44,644,820	55,863,360
Tanzania Breweries Ltd	13.1	11.4	1.19	1.19	118,531,710	88,204,656
Umeme Limited	-	14.1	-	1.19	-	126,227,487
Equity Group Holdings Ltd	13.4	16.0	2.50	2.50	121,277,017	123,859,957
East African Breweries Ltd (EABL)	12.9	16.2	1.64	1.64	116,919,412	125,672,513

NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017

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

	2017 %in Class	2016 %in Class	2017 % Held	2016 % Held	2017 Ushs 000	2016 Ushs 000
Eastern and Southern African Trade and Development Bank (PTA Bank)	11.5	7.6	3.77	2.32	100,631,822	58,929,849
Tanzania Portland Cement(Twiga)	2.9	3.6	5.00	4.02	26,054,460	27,812,724
British-American Invest (Britam)	1.9	0.5	2.03	0.73	17,285,286	3,615,515
Kenya Re-Insurance	0.3	-	0.48	-	2,421,461	-
Yield Fund	0.2	-	16.7	-	2,057,273	-
Kenya Commercial Bank	9.1	9.2	2.05	2.05	82,164,084	71,437,991
	<u>100</u>	<u>100</u>			<u>899,971,553</u>	<u>901,377,895</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), Bank of Kigali which is traded on the Rwanda Stock Exchange (RSE), PTA Bank and Yield fund which are not traded on a stock exchange. The trading prices at the last date of trading for the years ended 30 June 2017 and 2016 were as follows:

	2017				2016			
	Ushs	Kshs	Tshs	Rwf	Ushs	Kshs	Tshs	Rwf
Bank of Baroda (Uganda) Limited	108.00	-	-	-	142.00	-	-	-
DFCU Limited	759.00	-	-	-	800.00	-	-	-
Safaricom Limited	789.99	22.75	-	-	617.23	17.75	-	-
Centum Investments Limited	1,426.43	-	-	66	1,470.00	-	-	66
Uganda Clays Limited	12.00	-	-	-	15.00	-	-	-
Stanbic Bank Uganda Limited	27.00	-	-	-	25.00	-	-	-
New Vision Printing and Publishing Company Limited	539.00	-	-	-	555.00	-	-	-
Equity Bank Kenya	1,310.87	37.75	-	-	1,338.79	38.50	-	-
Kenya Commercial Bank	1,310.87	37.75	-	-	1,173.62	33.75	-	-
Bank of Kigali	1,052.28	-	-	245	1,314.43	-	-	280
			13,40		22,051.1			
Tanzania Breweries Limited	21,551.22	-	0	-	6	-	13,710	-
Tanzania Portland Cement Limited	2,894.94	-	1,800	2,390	3,844.08	-	2,390	2,390
British-American Invest (Britam)	439.27	12.65	-	-	493.79	14.20	-	-
Eastern and Southern African Trade and Development Bank (PTA Bank)	35,075,108	-	-	-	-	-	-	-

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

**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
KCB Kenya	Kshs	1,521,750	38.00	33.25	1,926,599,718
Kenya Reinsurance	Kshs	3,360,592	19.77	33.25	2,214,641,314
Britam Holdings Limited	Kshs	32,027,800	12	33.72	12,307,006,395
Safaricom (K) Limited	Kshs	2,050,500	18.00	34.41	1,307,194,095
Stanbic Bank Limited	Ugx	287,031,538	25.00	1.00	7,078,625,131
Tanzania Breweries Limited	Tzs	1,500,000	13,753	1.54	31,802,435,322
Twiga TPCC	Tzs	1,764,783	2,290	1.62	6,549,012,650
Yield Investment Fund					2,057,272,700
Eastern and Southern African Trade and Development Bank (PTA Bank)	USD	1,088	9,195.00	3596.50	<u>35,979,961,440</u>
					<u>160,671,323,565</u>

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

	2017 Ushs 000	2016 Ushs 000
At 1 July	901,377,895	734,270,133
Acquisition of new shares	101,222,750	231,562,872
Transfer to associates	(122,952,123)	-
Fair value loss	21,877,461	(74,373,213)
Foreign exchange (loss)/gain	<u>(1,554,430)</u>	<u>9,918,103</u>
At 30 June	<u>899,971,553</u>	<u>901,377,895</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

	2017 Ushs 000	2016 Ushs 000
Uganda Clays Limited (Note 34)	20,592,838	20,592,838
Housing Finance Bank Limited (Note 34)	26,000,000	29,666,667
Staff loans	<u>1,697,146</u>	<u>2,038,886</u>
	48,289,984	52,298,391
Fair value of discount on staff loans	<u>(817,638)</u>	<u>(1,157,665)</u>
	47,472,346	51,140,726
Impairment provision for Uganda Clays Limited loan	<u>(20,592,838)</u>	<u>(20,592,838)</u>
	<u>26,879,508</u>	<u>30,547,888</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

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

	2017 Ushs 000	2016 Ushs 000
At 1 July	20,592,838	21,352,771
Reversal of prior year impairment overprovision	<u>-</u>	<u>(759,993)</u>
At 30 June	<u>20,592,838</u>	<u>20,592,838</u>

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

	2017 Ushs 000	2016 Ushs 000
At 1 July	30,547,888	34,464,037
Disbursements	-	-
Maturities (proceeds from maturing loans)	(7,782,330)	(8,385,483)
Interest accrued	3,773,924	3,535,680
Prior year overprovision	-	759,933
Fair value adjustment	<u>340,026</u>	<u>173,721</u>
At 30 June	<u>26,879,508</u>	<u>30,547,888</u>

The loan to Uganda Clays Limited which was granted on 29 December 2010 is unsecured and was 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 2017, Uganda Clays Limited made a profit before tax of Ushs 2,168 million and the current assets exceeded the current liabilities by Ushs 15,630 million as at 30 June 2017. However the Company has experienced financial problems since the loan was disbursed and no loan repayment has been received as at 30 June 2017. 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% (2016: 11.5%) and Ushs 22.5 billion at a rate of 15.5% (2016: 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% (2016: 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 2017, the average market rate for mortgages was 17.5% (2016: 22%).

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 2017 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 2017**

20. INVENTORIES

	2017	2016
	Ushs 000	Ushs 000
Consumables and stationery	<u>1,187,304</u>	<u>-</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 2017**

21. INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

	Housing Finance Bank Limited Ushs 000	Uganda Clays Limited Ushs 000	TPS Uganda Limited Ushs 000	Umeme Ltd Ushs 000	Total Ushs 000
At 1 July 2015	57,858,068	10,941,399	6,093,323	-	74,892,790
Share of profit	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>-</u>	<u>80,319,762</u>
Purchases					
Purchase of shares	-	-	-	59,448,574	59,448,574
Transfer from investments at FVTP	-	-	-	122,952,123	122,952,123
Share of profit	10,358,229	1,063,241	1,152,002	11,975,035	24,548,507
Share of OCI, net of tax	-	-	-	(6,889,710)	(6,889,047)
Less: dividends	<u>5,415,216</u>	<u>(292,640)</u>	<u>(1,119,402)</u>	<u>(7,026,912)</u>	<u>(13,854,170)</u>
At 30 June 2017	<u>65,994,544</u>	<u>12,157,711</u>	<u>7,913,721</u>	<u>180,459,110</u>	<u>266,525,086</u>

As at 30 June 2017, the Fund had shareholding of 50%, 32.52%, 13.99% and 23.2% in the issued share capital of Housing Finance Bank Limited, Uganda Clays Limited TPS Uganda Limited and Umeme Ltd respectively. These investments have been accounted for under the equity method.

The Fund increased its holding in Umeme Limited to 23.2% in November 2016 and has representation on the Umeme Limited Board hence a change from equity investments at fair value through profit and loss to investments accounted for under the equity method.

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.
Umeme Limited	Through a concession with the Government of Uganda, Umeme operates as the primary electricity distribution company in Uganda, responsible for distributing electricity to Ugandan residents, commercial and government entities.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

21. INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD (CONTINUED)

Principle place of business	Housing Finance Bank Limited Investment House, Plot 4 Wampewo Avenue, Kololo, P. O. Box 1539, Kampala Not Listed.		Uganda Clays Limited 14 kms, Entebbe Road, Kajjansi, P. O. Box 3188, Kampala Ushs 15 per share		TPS (Uganda) Limited SN Chambers, Plot 36 Nile Avenue, P. O. Box 7814, Kampala Not Listed		Umeme Limited Rwenzori House, Plot 1 Lumumba Avenue, P.O. Box 23841, Kampala Ushs 425 per share	
	Market price	2017	2016	2017	2016	2017	2016	2017
Umeme Limited								
Housing Finance Bank		373,771,921	251,951,071	425	501	158,853,066	126,227,487	
TPS (Uganda) Limited		3,050,000	3,050,000	-	-	-	-	
Uganda Clays Limited		19,500	19,500	-	-	-	-	
		292,640,000	292,640,000	12	15	3,511,680	4,389,600	
						162,364,746	130,617,087	

Impairment has been assessed and the value in use exceeds the fair value for each of the associates.

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		Umeme Limited	
	2017	2016	2017	2016	2017	2016	2017	2016
Percentage held	50%	50%	32.52%	32.52%	13.99%	13.99%	23.02%	15.52%
Current assets	710,441,808	624,774,250	19,115,000	14,621,256	17,185,605	17,804,078	361,510,000	441,507,000
Non-current assets	42,204,020	42,617,431	47,163,000	49,107,960	78,271,845	61,359,540	1,809,641,000	1,750,352,000
Current liabilities	430,813,634	353,544,830	3,485,000	4,194,773	7,266,172	9,248,256	572,542,000	544,214,000
Non-current liabilities	192,532,101	198,729,194	33,490,000	31,947,086	9,663,736	5,940,944	1,015,975,000	1,055,593,000
Net assets	129,300,093	115,117,657	29,303,000	27,587,357	78,527,542	63,974,418	582,634,000	592,052,000
Funds share of Net assets	64,650,047	57,558,829	9,529,336	8,971,408	10,986,003	8,950,021	134,122,347	-
Goodwill	-	-	-	-	-	-	50,430,439	-
Other Adjustment	1,344,498	3,492,703	2,628,375	2,415,702	(3,072,282)	(1,068,900)	(4,093,676)	-
Carrying amount in the Statement of Net Assets	65,994,544	61,051,531	12,157,711	11,387,110	7,913,721	7,881,121	180,459,110	-
Revenue	665,549,755	47,049,700	12,861,000	12,382,185	28,094,494	25,192,637	697,478,000	1,312,168,000
Profit after tax from continuing operations	9,459,126	6,784,389	1,273,000	1,271,877	3,685,278	3,776,763	39,176,000	99,747,000
Other comprehensive income, net of tax	-	-	-	-	-	-	(35,849,000)	45,995,000
Total Comprehensive income	9,459,126	6,784,389	1,273,000	1,271,877	3,685,278	3,776,763	3,327,000	145,742,000
Reporting date of associate	30 June 2017	30 June 2016	30 June 2017	30 June 2016	30 June 2017	30 June 2016	30 June 2017	30 June 2016

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

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 in 2009. 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	Mbarara Ushs '000	Other Ushs '000	Workers House Ushs '000	Total Ushs '000
Cost									
At 1 July 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)	-	-	-	-	-
Revaluation Gains	-	-	-	-	-	-	-	-	-
At 30 June 2016	<u>2,330,000</u>	<u>245,077,907</u>	<u>65,388,789</u>	<u>1,847,530</u>	<u>1,126,478</u>	<u>-</u>	<u>1,359,240</u>	<u>-</u>	<u>317,129,944</u>
Additions	-	177,000	969,428	5,390,577	1,076,388	1,429,559	830,579	261,135	10,134,666
Transfer from other CWIP	-	-	-	-	-	-	(1,100,087)	-	(1,100,087)
Transfer from investment Property	-	-	-	-	-	-	-	-	-
Reclassification to expenses	-	-	-	-	-	-	-	-	-
Revaluation Gains	-	-	-	-	-	-	-	-	-
At 30 June 2017	<u>2,330,000</u>	<u>245,254,907</u>	<u>66,358,217</u>	<u>7,238,107</u>	<u>2,202,866</u>	<u>1,429,559</u>	<u>1,089,732</u>	<u>261,135</u>	<u>326,164,522</u>
Provision for impairment									
At 1 July 2016/2017	(2,330,000)	-	-	-	-	-	-	-	(2,330,000)
Net carrying amount									
At 30 June 2017	<u>-</u>	<u>245,254,907</u>	<u>66,358,217</u>	<u>7,238,107</u>	<u>2,202,866</u>	<u>1,429,559</u>	<u>1,089,732</u>	<u>261,135</u>	<u>323,834,522</u>
At 30 June 2016	<u>-</u>	<u>245,077,907</u>	<u>65,388,789</u>	<u>1,847,530</u>	<u>1,126,478</u>	<u>-</u>	<u>1,359,240</u>	<u>-</u>	<u>314,799,944</u>

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 Fund completed Phase I 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 2017

24. INVESTMENT PROPERTIES

	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	Additions Ushs '000	Disposal Ushs '000	Change in Fairvalue Ushs '000	Valuation at 30 June 17 Ushs '000
Workers House	56,248,682	-	-	(248,682)	-	56,000,000	-	-	2,000,000	58,000,000
Plot 5 Mvule Rd Naguru	1,800,000	-	-	200,000	-	2,000,000	-	-	-	2,000,000
Land on Yusuf Lule Road	19,000,000	-	-	-	-	19,000,000	-	-	1,000,000	20,000,000
Independence Ave Arua	150,000	-	-	20,000	-	170,000	-	-	-	170,000
Land in Kisugu	195,000	-	-	55,000	-	250,000	-	-	-	250,000
Land in Kabale	230,000	-	-	-	-	230,000	-	-	-	230,000
Land in Jinja	560,000	-	-	-	(560,000)	-	-	-	-	-
Land in Tororo	190,000	-	-	(20,000)	-	170,000	-	-	30,000	200,000
Lumumba Avenue	-	-	-	-	-	-	-	-	-	-
Social Security House	26,000,000	-	-	3,000,000	-	29,000,000	-	-	1,000,000	30,000,000
Land in Mbuya	1,800,000	-	-	-	(1,800,000)	-	-	-	-	-
Land in Busiro Temangalo	21,500,000	-	-	2,625,000	-	24,125,000	-	-	2,412,500	26,537,500
Nsimbe	-	-	-	-	-	-	29,845,654	-	12,577,295	42,422,949
Plot 16 Nakasero Rd (FRV 304)	8,200,000	-	-	200,000	-	8,400,000	-	-	-	8,400,000
Total	135,873,682	-	-	5,831,318	(2,360,000)	139,345,000	29,845,654	-	19,019,795	188,210,449

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 Katuramu, certified professional valuer as at 30 June 2017 and no significant movements were noted except the addition to Nsimbe land. 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 2017**

24. INVESTMENT PROPERTIES (CONTINUED)

Changes in fair values are recognised as gains in profit or loss and included in 'other operating income'.
The impact of revaluing investment properties on profit for the year is Ushs 6.4 billion (2016: 5.8) 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)	
	2017	2016
Office properties	Estimated rental value per square meter per month Rent growth per annum Long-term vacancy rate Discount rate	No material change in the fair value of office properties as assessed by the Fund's independent valuer.
Land & buildings	Price per square meter	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 2017**

24. INVESTMENT PROPERTIES (CONTINUED)

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

	2017	2016
	Ushs 000	Ushs 000
Workers House	7,045,959	6,809,322
Social Security House	2,548,541	2,353,728
Others	1,644,474	1,525,002
Service charge	<u>822,493</u>	<u>776,076</u>
	<u>12,061,467</u>	<u>11,464,128</u>

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

	2017		
	Workers House	Social Security House	Total
	Ushs 000	Ushs 000	Ushs 000
Maintenance & repairs	1,223,939	565,637	1,789,576
Ground & property rent	183,107	61,190	244,297
Cleaning services	174,481	54,801	229,282
Security services	281,486	83,660	365,146
Electricity	798,923	286,190	1,085,113
Water	<u>246,397</u>	<u>134,270</u>	<u>380,667</u>
Total	<u>2,908,333</u>	<u>1,185,748</u>	<u>4,094,081</u>

	2016		
	Workers House	Social Security 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>

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):

	2017		
	Land in Lubowa	Land in Busiro Temangalo	Total
	Ushs 000	Ushs 000	Ushs 000
Security expenses	394,101	23,789	417,890
Demolition expenses	<u>9,000</u>	<u>-</u>	<u>9,000</u>
Total	<u>403,101</u>	<u>23,789</u>	<u>426,890</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

24. INVESTMENT PROPERTIES (CONTINUED)

	2016			Total Ushs 000
	Land in Lubowa Ushs 000	Land in Busiro Temangalo Ushs 000	Land in Mbuya 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>

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

	2017 Ushs 000	2016 Ushs 000
Cost		
At 1 July	19,458,515	19,438,708
Additions	<u>2,986,183</u>	<u>19,807</u>
At 30 June	<u>22,444,698</u>	<u>19,458,515</u>
Amortisation		
At 1 July	15,058,271	13,580,912
Charge for the year	<u>1,615,894</u>	<u>1,477,359</u>
At 30 June	<u>16,674,165</u>	<u>15,058,271</u>
Net carrying amount	<u>5,770,533</u>	<u>4,400,244</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 2017

26. PROPERTY AND EQUIPMENT

	Land UShs'000	Property & Machinery UShs'000	Motor Vehicles UShs'000	Furniture and Fittings UShs'000	Computer Equipment UShs'000	TOTAL UShs'000
Cost						
At 1 July 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
Disposals	-	(47,911)	(1,544,066)	(33,003)	(271,325)	(1,896,305)
As at 30 June 2016	400,000	3,068,049	5,478,827	5,198,260	15,049,684	29,194,820
Additions	-	677,342	919,526	1,059,692	305,199	2,961,757
Disposals	-	(61,568)	(240,843)	(98,310)	(213,049)	(613,771)
As at 30 Jun 2017	400,000	3,683,822	6,157,509	6,159,639	15,141,834	31,542,806
Depreciation						
At 1 July 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	-	1,865,458	1,607,251	2,691,452	11,381,290	17,545,451
Charge for the year	-	440,967	1,167,129	584,773	1,451,417	3,644,287
Disposals	-	(61,568)	(240,843)	(98,311)	(216,069)	(616,792)
As at 30 Jun 2017	-	2,247,876	2,533,537	3,177,914	12,616,638	20,572,946
Net carrying amount						
As at 30 Jun 2017	400,000	1,435,946	3,623,972	2,981,726	2,525,196	10,966,840
As at 30 Jun 2016	400,000	1,202,591	3,871,576	2,506,808	3,668,394	11,649,369

NATIONAL SOCIAL SECURITY FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2017

27. FINANCE LEASE

	Valuation as At 30 June 2016 Ushs 000	Additions Ushs 000	Disposals Ushs 000	Change in fair value Ushs 000	Valuation as At 30 June 2017 Ushs 000
Plot 47 Masaka K'la RD	220,000	-	-	-	220,000
Plot 87 Churchill Gulu	180,000	-	-	-	180,000
Plot 8 Msk CL. Mbarara	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
	<u>650,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>650,000</u>

The Finance leases relate to properties that were acquired by the Fund under lease agreements to build offices. These were reclassified from property and equipment. The lease terms for Plot 47 Masaka K'la RD, Plot 87 Churchill Gulu and Plot 8 Masaka CL. Mbarara are 15years, 49 years and 99 years respectively. The Fund pays renewal fees for these leases to the respective land boards.

28. WITHHOLDING TAX PAYABLE (CLAIMABLE)

	2017 Ushs 000	2016 Ushs 000
(a) Withholding tax payable	439,305	-
(b) Withholding tax claimable	<u>(13,894,092)</u>	<u>(12,065,756)</u>
Net withholding tax (claimable)	<u>(13,454,787)</u>	<u>(12,065,756)</u>

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

29. OTHER PAYABLES

	2017 Ushs 000	2016 Ushs 000
Accounts payable	17,853,187	15,382,127
Accrual for legal costs	6,963,360	4,105,840
Alcon retention payable	2,165,511	2,076,816
Deferred income	837,743	1,365,376
VAT payable	<u>-</u>	<u>399,148</u>
	<u>27,819,801</u>	<u>23,329,307</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:

	2017 Ushs 000	2016 Ushs 000
At 1 July	4,105,840	7,277,857
Payments made during the year	(335,099)	(1,854,877)
Reversal of previous provisions	(1,894,979)	(1,648,940)
Increase in accrual during the year	<u>5,087,598</u>	<u>331,800</u>
At 30 June	<u>6,963,360</u>	<u>4,105,840</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

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.

30. PROVISIONS FOR LITIGATION

	2017	2016
	Ushs 000	Ushs 000
Alcon International Limited		
At 1 July	12,277,112	11,852,903
Foreign exchange losses	524,317	424,209
Additional provision	<u>-</u>	<u>-</u>
At 30 June	<u>12,801,429</u>	<u>12,277,112</u>

This suit arises out of a contract entered into between Alcon International Limited ("Alcon") and the Fund for construction of the Workers House.

The suit is for recovery of unpaid money for construction work done by Alcon on the Workers' House, recovery of the value of Plant, Equipment, Machinery and Building materials left at the site, special and general damages, interest and costs of the suit. The value of the claim is USD 7,466,042. (United States Dollars Seven Million Four Hundred Sixty Six Thousand Forty Two)

The matter first proceeded to arbitration in which an arbitral award was made in favour of Alcon. The Fund challenged the award up to the Supreme Court.

On 5 February 2013, the Supreme Court delivered its judgment remitting the case for trial in the High Court.

The provision of USD 3,553,731 is for works performed by Alcon and certified that had not been settled by the Fund.

Management is of the opinion Alcon's claim has no chance of success for the balance 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.

NATIONAL SOCIAL SECURITY FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2017

31. ACCUMULATED MEMBERS' FUNDS

	2017	2016
	Ushs 000	Ushs 000
At 1 July	6,303,685,942	5,166,761,915
Contributions received during the year	916,908,807	785,498,304
Reallocation of interest on arrears to/(from) members funds from/(to) the profit and loss	4,065,342	(2,823,917)
Interest allocation for the year	<u>676,655,927</u>	<u>593,046,806</u>
Members fund liability before benefit payments	7,901,316,018	6,542,483,108
Benefits paid during the year		
Age benefits	(82,266,882)	(80,225,005)
Withdrawal benefits	(79,656,329)	(68,706,382)
Exempted employee benefits	(37,634,757)	(30,083,905)
Invalidity benefits	(18,461,295)	(14,732,541)
Survivors benefits	(9,287,233)	(7,153,914)
Emigration grant benefits	<u>(50,948,222)</u>	<u>(37,895,419)</u>
Total benefits payments	<u>(278,254,718)</u>	<u>(238,797,166)</u>
At 30 June	<u>7,623,061,300</u>	<u>6,303,685,942</u>
Interest to Members:		
	2017	2016
	Ushs 000	Ushs 000
(Over) /Unallocated interest from prior year	(402,460)	13,092,858
Charge to Profit and Loss	<u>681,404,864</u>	<u>597,285,997</u>
Total Interest available to members	<u>681,002,404</u>	<u>610,378,855</u>
Allocated as follows:		
To Member funds		
Opening provision balance	(402,460)	13,092,858
Charge to Profit and Loss	<u>677,058,387</u>	<u>593,046,806</u>
	<u>676,655,927</u>	<u>606,139,664</u>
To Reserves		
Opening provision balance	-	-
Charge to Profit and Loss	<u>4,346,477</u>	<u>4,239,191</u>
	<u>4,346,477</u>	<u>4,239,191</u>
Total Provision	<u>681,002,404</u>	<u>610,378,855</u>
Total Charge to profit and Loss		
Allocated to Members fund	677,058,387	593,046,806
Allocated to reserves	<u>4,346,477</u>	<u>4,239,191</u>
	<u>681,404,864</u>	<u>597,285,997</u>

The accumulated member fund is made up of members' accounts to which all standard voluntary and supplementary contributions and interest on the contributions less benefits paid in accordance with Section 34 (1) of the National Social Security Fund Act, (Cap 222).

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 11.23% (2016: 12.3%) 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 2017

32. RESERVES

	Note	2017 Ushs 000	2016 Ushs 000
Special contributions, fines and penalties	(a)	47,019,296	41,403,373
Unallocated members contributions	(b)	<u>43,050,641</u>	<u>38,704,163</u>
		<u>90,069,937</u>	<u>80,107,536</u>

a) Special contributions, fines and penalties

	2017 Ushs 000	2016 Ushs 000
At 1 July	41,403,373	36,851,150
Special contributions received	5,615,923	4,913,165
Reallocation of fines and penalties	-	<u>(360,942)</u>
At 30 June	<u>47,019,296</u>	<u>41,403,373</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.

b) Unallocated members' contributions

	2017 Ushs 000	2016 Ushs 000
Principal Contributions	38,704,163	24,592,500
Provision for interest on unallocated members' contributions	<u>4,346,477</u>	<u>14,111,663</u>
	<u>43,050,640</u>	<u>38,704,163</u>

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

	2017 Ushs 000	2016 Ushs 000
At 1 July	14,111,663	9,872,472
Charged to Profit and Loss	<u>4,346,477</u>	<u>4,239,191</u>
At 30 June	<u>18,458,140</u>	<u>14,111,663</u>

As at 30 June 2017, 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. Interest is accrued on these balances as stated under note 31 above.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

33. NET CASH USED IN OPERATING ACTIVITIES

	Note	2017 Ushs'000	2016 Ushs'000
Surplus from operations		823,045,699	593,774,731
Depreciation of property and equipment	26	3,644,287	3,161,969
Gain on disposal of property and equipment		(141,100)	(613,778)
Amortization of intangible assets	25	1,615,894	1,477,359
Share of results from associates	21	(24,548,507)	(10,321,515)
Staff loan fair value adjustment		(340,025)	(173,721)
Unrealised foreign exchange loss/(gains) on equity investments at fair value through profit or loss	18	1,554,430	(9,918,104)
Unrealised foreign exchange loss/(gains) on held to maturity investments	17	3,101,003	(16,934,643)
Unrealised foreign exchange gains on held for trading investments	15	75,701	394,340
Fair value gains on investment properties	24	(19,019,795)	(5,831,318)
Fair value loss on capital work in progress	23	-	6,934
Fair value (gain)/loss on equity investments held for trading	15	(1,558,529)	14,048,450
Fair value gain on equity investments at fair value through profit or loss	18	(21,877,461)	74,373,212
Fair value loss/(gain) on finance leases	27	-	(393,711)
Interest income on loans & advances	19	(3,773,924)	(3,535,680)
Interest income on held to maturity investments	17	(647,490,434)	(538,693,390)
Interest income on commercial bank deposits	14	(36,627,516)	(39,573,496)
Withholding tax on investments paid at source		(130,637,624)	(102,331,080)
Prior year interest to members over-provision		(402,460)	(1,008,537)
Provisions charge to profit and Loss		524,317	424,209
<u>Changes in working capital</u>			
Decrease in provisions for bad loans		-	(759,933)
(Increase)/decrease in inventories		(87,217)	853
(Increase)/decrease in trade and other receivables		(2,190,932)	(11,518,601)
Increase/(decrease) in other payables		4,490,494	(3,682,576)
Increase in WHT claimable		<u>(1,389,031)</u>	<u>(13,274,096)</u>
Net cash used in operating activities		<u>(52,032,730)</u>	<u>(70,902,122)</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

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 2017 and 2016, refer to Notes 13, 14, 17 and 19:

	2017 Ushs'000	2016 Ushs'000
Bank balances		
Housing Finance Bank Limited	<u>103,541</u>	<u>15,758</u>
Loans and Advances		
Housing Finance Bank Limited	26,000,000	29,666,667
Uganda Clays Limited	20,592,838	20,592,838
Staff loans to key management staff	<u>530,012</u>	<u>470,236</u>
	<u>47,122,850</u>	<u>50,729,741</u>
Corporate Bonds		
Housing Finance Bank Limited	<u>2,644,538</u>	<u>4,797,286</u>
Fixed deposits		
Housing Finance Bank Limited	<u>33,213,725</u>	<u>23,482,985</u>
Treasury Bonds		
Government of Uganda	<u>4,008,618,804</u>	<u>3,682,764,644</u>
Dividends receivable (Associate Companies)		
Housing Finance Bank Limited	5,415,216	10,061,927
Uganda Clays Limited	1,119,402	-
TPS (U) Limited	<u>292,640</u>	<u>111,192</u>
As at 30 June	<u>6,827,258</u>	<u>10,173,119</u>
Other related party transactions during the year:		
	2017 Ushs'000	2015 Ushs'000
Housing Finance Bank Limited		
Interest income on loans and advances	3,644,400	4,160,775
Interest income on corporate bonds	427,039	714,128
Interest income on term deposits	<u>4,278,756</u>	<u>1,577,560</u>
	<u>8,350,195</u>	<u>6,452,463</u>
Dividend Income		
TPS (U) Limited	1,119,402	489,739
Umeme Limited	7,026,912	8,650,212
Uganda Clays	292,640	-
Housing Finance	<u>5,415,216</u>	<u>4,404,804</u>
	<u>13,854,170</u>	<u>13,544,755</u>

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

34. RELATED PARTY DISCLOSURES (CONTINUED)

	2017 Ushs'000	2016 Ushs'000
Government of Uganda		
Withholding tax expense for the year	130,637,624	115,218,562
Interest income on treasury bonds	562,403,699	473,788,073

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 2017, the Fund has not recorded an impairment of receivables relating to amounts owed by related parties (2016: Ushs 1 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 2017**

34. RELATED PARTY DISCLOSURES (CONTINUED)

f) Compensation for key management personnel and directors emoluments

	2017	2016
	Ushs'000	Ushs'000
Non-executive directors' emoluments:		
Directors' allowances	508,417	505,745
Key management remuneration:		
Salaries and allowances	3,540,787	2,349,359
Gratuity	<u>672,295</u>	<u>512,697</u>
	<u>4,213,082</u>	<u>2,862,056</u>
Total compensation for key management personnel	<u>4,721,499</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 alleged breach of contracts that the Fund entered into and members suing for their unsettled benefit claims.
- b) The Fund objected to a tax assessment by Uganda Revenue Authority (URA) on 15 April 2013 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. During the mediation process both parties agreed to reduce the taxes in dispute from Ushs.84.4 billion to Ushs.42.2 billion. 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.

36. 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.
- (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) *Valuation of Investment properties*- 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.
- (v) *Determination of significant influence*-Significant influence is presumed to exist when the Fund holds 20 to 50 percent of the voting power of another entity and when the Funds representation on the Board by of the Investee Company is 20 to 50 percent for investees where the shareholding is below 20 percent.
- (vi) *Lease classification*- Leases are classified as finance leases when a significant portion of the risks and rewards are transferred to the fund

37. 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 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.

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.

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2017;

Type of Investment	Change in share price % Ushs 000	Effect on surplus before tax Ushs 000
Equity securities held-for-trading	+/-5%	+/-4,418,675
Equity investments at fair value through profit or loss	+/-5%	+/-44,998,578

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 2017;

	Change in property price % Ushs 000	Effect on surplus before tax Ushs 000
Investment property	+/-5%	+/- 9,410,522

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 Management and Investment 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 2017**

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

The Fund had the following currency positions as at 30 June 2017. All balances are in Ushs'000's.

	USD	Kshs	Tshs	Ushs	Rwf	Eur	Total
Financial assets							
Cash and bank balances	25,727,588	834,773	7,661,286	22,019,222	-	-	56,242,869
Deposits with commercial banks	-	-	-	224,775,364	-	-	224,775,364
Equity securities held-for-trading	-	65,446,677	11,178,400	11,748,426	-	-	88,373,503
Trade and other receivables	3,104,202	104,504	5,941,400	31,536,159	2,128,472	-	42,814,738
Investments in securities held-to-maturity	-	1,281,125,864	348,405,524	4,098,758,273	18,769,954	-	5,747,059,614
Equity investments at fair value through profit or loss	100,631,823	533,260,702	144,586,170	74,790,765	44,644,820	2,057,273	899,971,553
Loans and advances	-	-	-	26,879,508	-	-	26,879,508
Total Assets	129,463,613	1,880,772,519	517,772,781	4,490,507,717	65,543,246	2,057,273	7,086,117,149
Financial liabilities							
Withholding tax payable	-	-	-	439,529,508	-	-	439,529,508
Other payables	645,562	-	-	24,954,914	-	-	25,600,476
	645,562	-	-	464,484,422	-	-	465,129,984
Currency gap At 30 June 2017	128,818,051	1,880,772,519	517,772,781	4,026,023,295	65,543,246	2,057,273	6,620,987,165

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

NATIONAL SOCIAL SECURITY FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

Financial liabilities	USD	Kshs	Tshs	Ushs	Rwf	Total
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

Currency risk

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
	2017	2017	2016	2016
		Ushs '000		Ushs '000
USD	+/-5%	+/- 6,440,903	+/-5%	+/- 3,206,617
KES	+/-5%	+/- 94,038,626	+/-5%	+/- 49,046,359
TZS	+/-5%	+/- 25,888,639	+/-5%	+/- 9,895,632
RWF	+/-5%	+/- 3,277,162	+/-5%	+/- 3,877,529
EUR	+/-5%	+/- 102,864	-	-

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following exchange rates applied during the year:

	<u>Average rate</u>		<u>Reporting date spot rate</u>	
	2017	2016	2017	2016
	Ushs	Ushs	Ushs	Ushs
KES	34.73	34.57	34.52	34.77
USD	3,602.25	3,469.87	3,522.54	3,454.71
TZS	1.6083	1.6319	1.5975	1.6084
RWS	4.283	4.778	4.295	4.6944

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 2017

37. 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	Contractual Amounts Ushs'000
Cash and bank balances	-	-	-	-	56,242,869	56,242,869	56,242,869
Deposits with commercial banks	-	-	224,775,364	-	-	224,775,364	224,775,364
Equity securities held-for-trading	-	-	-	-	84,863,191	84,863,191	84,863,191
Trade and other receivables	-	-	-	-	42,814,738	42,814,738	42,814,738
Investments in securities held-to-maturity	-	45,505,610	259,682,437	5,441,871,567	-	5,747,059,614	5,867,174,091
Equity investments at fair value through profit or loss	-	-	-	-	899,971,553	899,971,553	899,971,553
Loans and advances	-	-	-	26,879,508	-	26,879,508	58,358,942
Total Assets	-	45,505,610	484,457,801	5,468,751,075	1,083,892,351	7,082,606,837	7,234,200,748
Liabilities							
Trade and other payables	-	-	-	-	25,600,476	25,600,476	25,600,476
Total Liabilities	-	-	-	-	25,600,476	25,600,476	25,600,476
Gap as at 30 June 2017	-	45,505,610	484,457,801	5,468,751,075	1,058,291,875	7,057,006,361	7,208,600,272

NATIONAL SOCIAL SECURITY FUND
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2017

37. 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	Contractual Amounts Ushs'000
Cash and bank balances	-	-	-	-	27,800,138	27,800,138	27,800,138
Deposits with commercial banks	-	17,150,144	256,912,041	-	-	274,062,185	274,062,185
Equity securities held-for-trading	-	-	-	-	84,863,191	84,863,191	84,863,191
Trade and other receivables	-	-	-	-	42,645,834	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	4,689,255,826
Equity investments at fair value through profit or loss	-	-	-	-	901,377,895	901,377,895	901,377,895
Loans and advances	-	-	-	30,547,888	-	30,547,888	58,358,942
Total Assets	-	317,842,317	344,186,335	4,278,326,841	1,056,687,058	5,997,042,551	6,078,364,011
Liabilities							
Withholding tax payable	-	-	-	-	298,750	298,750	298,750
Trade and other payables	-	-	-	-	23,568,084	23,568,084	23,568,084
Total Liabilities	-	-	-	-	23,866,834	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	6,054,497,177

37. 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 2017 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 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 June 2017	Matured Ushs'000	<3 months Ushs'000	3-12 months Ushs'000	1-5 years Ushs'000	> 5 years Ushs'000	Total Ushs'000	Contractual Amounts Ushs'000
Financial assets							
Cash and bank balances	56,242,869	-	-	-	-	56,242,869	56,242,869
Deposits with commercial banks	-	224,775,364	-	-	-	224,775,364	224,775,364
Equity securities held-for-trading	-	-	88,373,503	-	-	88,373,503	84,863,191
Trade and other receivables	-	-	42,814,738	-	-	42,814,738	42,814,738
Investments in securities held-to-maturity	-	45,505,610	259,682,437	1,477,275,783	3,964,595,784	5,747,059,614	5,867,174,091
Equity investments at fair value through profit or loss	-	-	-	-	899,971,553	899,971,553	899,971,553
Loans and advances	-	-	-	-	26,879,508	26,879,508	58,358,942
Total financial assets	56,242,869	45,505,610	527,272,539	1,565,649,286	4,891,446,845	7,086,117,149	7,234,200,748
Financial liabilities							
Other payables	-	27,823,994	-	-	-	27,823,994	27,823,994
Financial liabilities	-	27,823,994	-	-	-	27,823,994	27,823,994
Gap as at 30 June 2017	56,242,869	17,681,616	527,272,539	1,565,649,286	4,891,446,845	7,058,293,155	7,206,376,754

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

37. 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	Contractual Amounts Ushs '000
Financial assets							
Cash and bank balances	27,800,138	-	-	-	-	27,800,138	27,800,138
Deposits with commercial banks	-	17,150,144	115,341,460	141,571,582	-	274,063,186	274,062,185
Equity securities held-for-trading	-	-	-	84,863,191	-	84,863,191	84,863,191
Trade and other receivables	-	-	42,645,834	-	-	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	4,689,255,826
Equity investments at fair value through profit or loss	-	-	-	-	901,377,895	901,377,895	901,377,895
Loans and advances	-	-	-	-	30,547,888	30,547,888	58,358,942
Total financial assets	27,800,138	317,842,317	245,261,588	1,561,603,675	3,844,535,832	5,997,043,550	6,078,364,011
Financial liabilities							
Withholding tax payable	-	298,750	-	-	-	298,750	298,750
Other payables	-	23,168,935	-	-	-	23,168,935	23,168,935
Financial liabilities	-	23,467,685	-	-	-	23,467,685	23,467,685
Gap as at 30 June 2016	27,800,138	294,374,632	245,261,588	1,561,603,675	3,844,535,832	5,973,575,865	6,054,896,326

37. 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 2017

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Note	2017	2016
		Ushs 000	Ushs 000
Bank balances	13	56,212,421	27,780,964
Deposits due from banks	14	224,775,364	274,062,186
Trade and other receivables	16	45,038,256	42,645,834
Investment securities held-to-maturity	17	5,747,059,614	4,635,745,420
Loans and advances	19	<u>48,289,984</u>	<u>52,298,391</u>
Total		<u>6,121,375,639</u>	<u>5,032,532,795</u>

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

	2017	2016
	Ushs 000	Ushs 000
Housing Finance Bank Limited	26,000,000	29,666,667
Uganda Clays Limited	20,592,838	20,592,838
Staff loans	<u>1,697,146</u>	<u>2,038,886</u>
Total	<u>48,289,984</u>	<u>52,298,391</u>

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

	30 June 2017		30 June 2016	
	Gross Ushs 000	Impairment Ushs 000	Gross Ushs 000	Impairment Ushs 000
Neither past due nor impaired	27,697,146	-	31,705,553	-
Past due 30-60 days	-	-	-	-
Past due 31-120 days	-	-	-	-
Past due 120-360 days	20,592,838	(20,592,838)	20,592,838	(20,592,838)
More than a year	-	-	-	-
	48,289,984	(20,592,838)	52,298,391	(20,592,838)

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 2017**

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2017	2016
	Ushs 000	Ushs 000
Rent receivable	3,501,173	2,993,632
Contributions receivable	889,095	889,095
Staff advances	108,449	174,131
Cash advances to investment managers	1,219,066	2,306,268
Dividends receivable	33,604,493	31,426,372
Trade receivables	8,287,816	9,360,131
VAT recoverable	<u>2,223,518</u>	<u>-</u>
Total	<u>49,833,610</u>	<u>47,149,629</u>

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

	30-Jun-17		30-Jun-16	
	Gross Ushs 000	Impairment Ushs 000	Gross Ushs 000	Impairment Ushs 000
Neither past due nor impaired	36,412,981	-	34,451,820	-
Past due 30-60 days	1,851,717	-	1,751,986	-
Past due 31-120 days	904,072	-	-	-
Past due 120-360 days	1,734,926	-	2,496,864	-
Past due 360 days	8,929,914	(8,929,914)	8,448,959	(8,448,959)
	49,833,610	(8,448,959)	47,149,629	(8,448,959)

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 2017**

37. 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	
	2017	2016	2017	2016
	Ushs 000	Ushs 000	Ushs 000	Ushs 000
FINANCIAL ASSETS				
Held-for-trading				
Investment securities held-for-trading	88,373,503	84,863,191	88,373,503	84,863,191
Financial assets at fair value through profit or loss				
Equity investments	899,971,553	901,377,895	899,971,553	901,377,895
Held-to-maturity Investments				
Deposits with commercial banks	224,775,364	274,062,186	224,775,364	274,062,186
Investments in securities held-to-maturity	<u>5,747,059,614</u>	<u>4,635,745,420</u>	<u>5,747,059,614</u>	<u>4,635,745,420</u>
Total	<u>5,971,834,978</u>	<u>4,909,807,606</u>	<u>5,971,834,978</u>	<u>4,909,807,606</u>
Financial Assets at amortised cost				
Cash and bank balances	56,242,869	27,800,138	56,242,869	27,800,138
Trade and other receivables	45,038,256	42,645,834	45,038,256	42,645,834
Loans and advances	<u>26,879,508</u>	<u>30,547,888</u>	<u>26,879,508</u>	<u>30,547,888</u>
	<u>128,160,633</u>	<u>100,993,860</u>	<u>128,160,633</u>	<u>100,993,860</u>
Total financial assets	<u>7,088,340,667</u>	<u>5,997,042,552</u>	<u>7,088,340,667</u>	<u>5,997,042,552</u>
FINANCIAL LIABILITIES				
Financial liabilities at amortised cost				
Other payables	<u>27,819,801</u>	<u>23,568,084</u>	<u>27,819,801</u>	<u>23,568,084</u>

e) Capital risk management

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.

37. FAIR VALUE MEASUREMENT

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 of 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 2017		30 June 2016	
	Carrying amount Ushs '000	Fair Value Ushs '000	Carrying amount Ushs '000	Fair Value Ushs '000
Investment securities held to maturity	5,747,059,614	5,959,877,041	4,657,771,191	4,340,142,020

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 2017**

38. FAIR VALUE MEASUREMENT (CONTINUED)

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:

	Date of valuation	Total Ushs '000	Fair value measurement using		
			Quoted price in active market (Level 1) Ushs '000	Significant observable input (Level 2) Ushs '000	Significant unobservable input (Level 3) Ushs '000
Assets measured at fair value					
Investment at fair value through profit or loss (Note 18)	30-Jun-17	899,971,553	795,943,289	-	104,028,264
Quoted equities-held for trading (Note 15)	30-Jun-17	88,373,503	88,373,503	-	-
Investment Properties (Note 24)	30-Jun-17	188,210,449	-	-	188,210,449
Assets for which fair values are disclosed					
Investment securities held to maturity	30-Jun-17	5,747,059,614	-	5,747,059,614	-

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

Description of valuation techniques used and key inputs to valuation for investment properties are disclosed under note 24, and below for 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	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%)
Investments at fair value through profit and loss	Cost approach	Recent transaction price				

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 2017.

	2017 Ushs '000	2016 Ushs '000
Investment Properties (Note 24)	6,181,365	5,900,000
PTA Bank Shares- Class B	31,697,813	3,396,442

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.

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 11.23% was declared for the year 2017 (2016: 12.3%).

**NATIONAL SOCIAL SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

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.