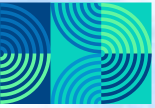
FINANCE trust BANK

Putting Women First

SUSTAINING BUSINESS GROWTH

ANNUAL REPORT AND FINANCIAL STATEMENTS 2022



Lets take care
of your business!

BRAND NEW OFFICE **BETTER SERVICE**

We are pleased to announce that our Head Office is now at **Twed Plaza, Plot 22B, Lumumba Avenue, Kampala**.

Let’s take care of your business!

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WHO WE ARE
AND WHAT WE DO

Finance Trust Bank Limited (FTB) is a financial institution that is licensed and regulated by Bank of Uganda under license number A1.028. The Bank has a large branch network of thirty five (35) branches serving over 300,000 customers, countrywide. The bank was established in 1984 first as Uganda Women Finance Credit Trust and in 2004 transformed into an MDI. In 2013 it was granted the full commercial banking license to offer a full spectrum of banking services including provision of various products and services namely deposits, loans, money transfer services, and forex.

In addition, the bank has several other service channels including ATM machines, Mobile Banking, Internet Banking platforms and Agent Banking services through the shared Agent platform.

Our purpose

Finance Trust Bank is rooted in purpose, to provide sustainable financial solutions to her clients, especially women with the aim of transforming household and economic livelihoods while at the same time strengthening its position in the local industry to achieve profitability and sustainability.

Who we serve

Our core client lies in the lower pyramid of the economic strata, especially women who are emerging rural entrepreneurs and enterprising urbanites. We also serve individuals as well as saving groups.

Our Vision

To be the Bank of Choice

Our Mission

To efficiently deliver a range of highly competitive financial services to our customers especially women.

CUSTOMER FOCUSED

EXCELLENCE

TEAMWORK

ACCOUNTABILITY

UGX

CORE VALUES

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

INTEGRITY

LEARNING & INNOVATION

OUR BANKING
NETWORK AND CONTACTS

Arua Branch
Plot 2 Duka Rd
0740 002 663

Busia Branch
Plot 69, Custom Road.
0740 002 668

Corporate Branch
Plot 12B, Twed Plaza, Lumumba Avenue
0740 469 237

Central Branch
Plot 1 Bombo Road, Sure House
0740 002 669

Entebbe Branch
Plot 29, Kampala Road -Entebbe
0740 002 673

Gomba Branch
Block 212, Plot 117 Kanoni Town Council
0740 002 664

Iganga Branch
Plot 58A, Main Street.
0740 002 677

Ishaka Branch
Rukungiri Road,
0740 002 679

Jinja Branch
Plot 83 West Main street
0740 002 696

Kabarole Branch
Plot 7, Rukidi III Street
0740 002 698

Kalangala Branch
Plot 52/3 Main Road Kalangala
0740 002 700

Kalerwe Branch
Plot 641 Kibuga Mengo Kalerwe
0740 002 702

Kampala Road Branch
Plot 4 Kampala Road
0740 002 704

Kamuli Branch
Plot 1 Kitimbo Road
0740 002 705

Kamwenge Branch
Plot 10, Station Road
0740 002 706

Kapchorwa Branch
Plot 24, Tingey Road
0740 002 727

Katwe Branch
Plot 121 & 115,Block 6
0740 002 707

Kayunga Branch
Kayunga Town
0740 002 680

Kikuubo Branch
Plot. 21 Nakivubo Road Kampala
0740 002 734

Kitintale Branch
Plot 1315 block 243 Kitintale T/C
0740 002 778

Kumi Branch
Plot 26A, Ngora Road
0740 002 681

Lugazi Branch
Plot 65 Block 316 Kla-Jinja Road
0740 002 684

Lwengo Branch
Mbirizzi Trading centre
0740 002 773

Masaka Branch
Plot 7 Edward Avenue Masaka Town,
0740 002 687

Mbale Branch
Plot 23 Republic Street.
0740 002 688

Mbarara Branch
Plot 31 High Street Mbarara.
0740 002 708

Mukono Branch
Plot 35, Kampala-Jinja Road
0740 002 709

Nakivubo Branch
Plot 30-32 Mackay Road, Kampala
0740 002 710

Nansana Branch
Plot 6003 Block 203
0740 002 735

Nateete Branch
Plot 1246 & 974
0740 002 711

Ntungamo Branch
Plot 18, Old Kabale Road,
0740 002 712

Owino Branch
Plot 769 (Kafumbe Mukasa Rd)
0740 002 713

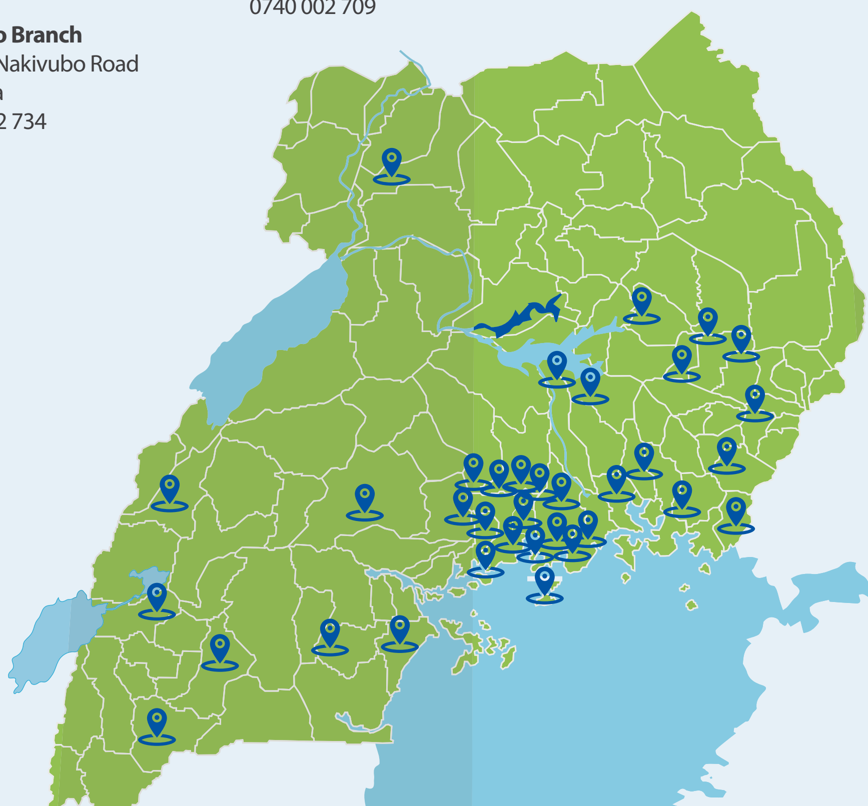
Pallisa Branch
Plot 11, Gogonyo Road
0740 002 693

Soroti Branch
Plot 49 Gweri road.
0740 002 691

Tororo Branch
Plot 12B, Bazaar Street
0740 002 690

OUR FOOTPRINT
ACROSS UGANDA

The bank has 35 operational branches with 11 Automated Teller Machines and over 500 Agent Banking partners. The branches are clustered into 5 regional clusters namely; Central A, Central B, Mid East, Far East and Western Region.



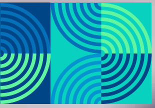
OUR PARTNERS

We have always relied on like-minded partners in whatever we do and our recent partnerships are no exception on the following fronts:

Extending credit to SMEs in the agricultural sector with help from ACELI Africa.

The partnership with ACELI Africa continues to enable the bank to venture more into the agricultural space, particularly for the SME. This move emboldened the bank to increase its funding in the entire agriculture value chain. This partnership will improve the delivery of non-bank services to SMEs in the form of training intended for capacity building and growth. Our partnership agenda deliberately extended to engaging with key farmer groups in the agriculture production value chain. Our intention is to offer our full range of banking services while preserving and improving the social and economic cohesion of our partners in the groups.

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



STATEMENT OF THE CHAIRPERSON BOARD OF DIRECTORS

Finance Trust Bank achieved robust growth in assets and revenue while prioritising technology and risk management, empowering women, fostering strategic partnerships, and investing in continuous capacity building for future growth.

Board Chairperson
Dr. Evelyn Kigozi Kahiigi

It gives me great pleasure to present Finance Trust Bank's performance for the year ended 31st December 2022. During 2022, the Bank registered several bold milestones, amongst which was the fundamental decision to relocate its Head Office from Katwe to Plot 22B TWED Plaza, coupled with the launch of its Corporate branch. I commend Management for delivering on such a milestone that is undoubtedly expected to improve customer service delivery.

We are steadfast in our commitment to serving customers at the bottom of the pyramid, especially women, and keeping FTB as the Bank that puts women first. On this premise, continuous improvements in the Bank's value proposition to its target customer base shall remain key on the agenda.

Financial Performance

The Bank registered a 12% growth in total assets from Shs394bn in 2021 to Shs441bn in 2022, essentially attributed to the growth in the loan book, the Bank's principle revenue-generating asset. This translated into an improvement in the Bank's revenue generation capacity, delivering a 14% upturn in gross revenue year on year from Shs93bn to Shs106bn. Net loans grew by 9% year on year from Shs 243bn to 266bn. Growth in customer deposits was recorded at 51%, from Shs183bn in 2021 to Shs277bn in 2022. We pride ourselves in the above milestones as they are key in establishing a springboard for better performance in the future.

The Bank registered a

12%

growth in total assets from Shs394bn in 2021 to Shs441bn in 2022, demonstrating strong financial performance.

Adaptability and risk management

Our operating space is characterized by multiple risks, particularly Technology-related, Operational, and Credit risks.

Technological risks present the most significant danger within the Bank's operating environment. Although this is a sector-wide challenge, it manifests to every Bank differently. During the past period, cyber security risks, data integrity & technological risks manifested often, and I thank Management that these were handled successfully, thereby minimizing potential loss. In the quest to ensure convenience to its customers as well as enhance financial inclusion for the unbanked, the Bank is cognizant of the fact that fraudsters have now resorted to manipulating the established channels to defraud the ignorant and unsuspecting customers. To counter this, the Bank has undertaken measures to educate staff and customers to equip them with the basic knowledge to identify and avoid falling victim to fraud. Conversely, the Bank continues to ring-fence itself by establishing resilient systems, strict policies, procedures, and protocols to respond to any attacks proactively.

In the same vein, the Board and Management took steps to upgrade the Bank's core banking system to a new and modern open Application-Programming Interface (API), which has been rolled out successfully. Key to this new system is its capacity to adapt to agile cyber security enhancements to curb the threats mentioned above. The Bank shall now leverage this investment to benefit our customers and increase its competitive market advantage.

The Bank has continued to grow in the various market segments and increased its competitiveness in the small and medium (SME) space. Our focus is to support the ever-increasing demands of our previous micro customers that have, over time, metamorphosed into the SME category. This stride ensures that the Bank stays relevant to its nurtured customers. This investment in the SME space allows for retaining our highly valued customers. This space, however, poses challenges, especially in the assessment of high-ticket credit facilities that, if not appropriately managed, can lead to financial loss through degeneration into bad debts. This threat is being dealt with through continuous capacity building within our staff in assessing and evaluating worthwhile borrowers. On this premise, the Bank remains committed to continuously investing in its human resource to ensure its skills are well-matched to the dynamics in the market.

Organisation structure

Over the past year, the Bank underwent a major organisational review process that saw the rationalization of several roles, the introduction of new roles, and the enrichment of others. The objective of this exercise was to ensure that the Bank is poised for growth and effective Management of key risks as they emerge. This intervention also sought to align the bank structure to the aspirations of its strategic plan for the next five years, including the need to effectively manage emerging risks, especially in the credit risk space. I am confident that the new structure should help the Bank leap into the future by realizing its strategic objectives as engrossed in its 5-year strategic plan for 2022-2026.

Sustainability

During the reporting period, the Bank was happy to resume its flagship activity of empowering women countrywide with skills to manage money and grow their businesses. Key to note here is that these activities had been suspended due to Covid 19 restrictions. It's clear that low levels of financial literacy inhibit the potential and capacity of women to access credit and thus fail to transition from subsistence to the commercial economy. Resultantly, during the year, the Bank conducted financial literacy town halls in 10 districts, namely Arua, Gomba, Kampala, Bushenyi, Jinja, Iganga, Masaka, Mbale, Mbarara, and Kayunga. Through these events, over 10,000 women benefited from well-structured and very informative financial literacy content delivered to them by some of the best tutors in the country. As a women's Bank, our call is clear on such matters as this ensures that the current and future bottlenecks to women's empowerment are eliminated to allow women to participate in the money economy through access to credit and improved saving behaviour.

The Board supports these strategic interventions as part of its efforts to ensure that FTB makes fundamental strides in developing an environmental, social & governance (ESG) framework that will be key to a sustainable bank of the future, and financial literacy is one of such interventions.

It's on this note that I wish to thank our partners, namely Uganda Revenue Authority (URA), the Private Sector Foundation (PSFU), and Makerere Business School (MUBS), that contributed immensely to the success of last year's programs through contributing financially and materially towards these events.

Partnerships with Women's Organisations

The Bank has continued to attract key like-minded partners with an agenda of women's empowerment.

Last year the Bank entered into a partnership with Aceli-Africa with the objective of creating incentives that have enabled it to increase its appetite for lending to SMEs, especially women. Through this partnership, the Bank is now supported in SME capacity building for customers and staff.

We have further leveraged our partnership with the Nnabagereka development foundation on the Ekisaakaate program, a flagship project of the Queen of Buganda aimed towards advancing ethics and culture among the youth. This platform and partnership have anchored us as a true women's Bank that cares for the needs of the family for which the women are key players.

We also take this opportunity to acknowledge partnerships and support from Women Organizations like; Uganda Women Entrepreneurship Association Ltd (UWEAL), aimed towards providing access to women-owned enterprises. Water.Org for increased access to water and sanitation services. Uganda Sanitation and Health Activity (USHA), National Women Council, Ministry of Gender, Labour and Social Development, Uganda Women's Network (UWONET), FIDA-Uganda (The Uganda Association of Women Lawyers) and National Association of Women's Organisations in Uganda (NAWOU) among others.

Capacity building

Over the past year, the Bank has continued its investment in building capacity at all levels, including tailor-made training for members of Senior Management and the Board of directors. The resulting competencies will guarantee business continuity and innovation necessary for a growing bank like FTB but will also help deal with the ever-emerging banking issues. The Bank continues to run a well-structured training program for all its staff, including a blend of in-house and outsourced expert training to ensure continuous professional development at all levels. This agenda is expected to deliver a formidable force that will, in turn, guarantee quality business growth on an ongoing basis.

Appreciation

I want to thank the Board of Directors with whom we are working to steer Finance Trust Bank in the right direction. I would also like to applaud the Bank's Management and staff members that continue to deliver on their mandate of implementing the Bank's strategy.

I would also like to thank our shareholders, regulators, customers, partners, and other stakeholders for their invaluable support to the Bank. This support was a great enabler to the achievements of 2022 results, but key to note is that the Bank is now best placed to deal with the future.

Dr. Evelyn Kigozi Kahiigi
Board Chairperson

BOARD OF DIRECTORS

Dr. Evelyn Kigozi Kahiigi
Board Chairperson

Dr. Evelyn Kigozi Kahiigi is currently a Lecturer and Head of Department of Information Technology at the School of Computing and Informatics Technology, Makerere University. She started her career at Nile Bank where she worked in the Operations and Computer Departments. Evelyn then moved to the Directorate for ICT Support, Makerere University where she was part of the pioneering team in setting up ICT infrastructure and systems with specific engagement in developing and implementing the ICT Policy, Strategy and Master Plan.

Evelyn is an Adjunct Faculty at Strathmore University Business School, Board Chairman, Weerinde Insurance Services Ltd, Board Member, Greenhill Schools Virtual Learning Ltd. She is a youth mentor and an advocate for academic and social excellence. Her interests are inclined toward ICT4D in the field of E-learning, Entrepreneurship and Health Informatics to support, enhance and sustain a better quality of life for the underprivileged and marginalized groups. Evelyn holds a PhD in Computer and System Sciences from Stockholm University, Sweden.

Ms. Annet Nakawunde
Managing Director

The Managing Director of Finance Trust Bank, Mrs. Annet Nakawunde is a banker by profession with over 15 years' practical experience in Banking and Microfinance. Previously she has worked in various capacities, at Finance Trust Bank as Head of Operations, and Operations & Compliance Manager. Prior to Finance Trust Bank, Annet held various key positions at Pride Micro nance and Nile Bank Ltd.

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

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

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Ms. Annette Kiggundu
Executive Director

Annette Kiggundu is the Executive Director of Finance Trust Bank. She joined the Bank in May 2016 as Head of Treasury with over 13 years of progressive banking experience in the fields of treasury and financial management, International business, Risk, Compliance and Operations.

Previously, she worked with UBA Uganda and Centenary bank.

She is a chartered accountant with the Association of Chartered Certified Accountants (UK),holds a Bachelor`s of Commerce degree (Accounting) and currently pursuing a Master`s degree in Financial Management with Edinburgh Business School, Heriot Watt University. Annette also holds a ACI Dealing certificate and is a member of ACI Uganda Dealers Association.

Mr. Tor. G. Gull
Director

Mr Tor G. Gull served as the Managing Director of Oikocredit International in the Netherlands from July 2001 to July 2011.

Tor is from Finland where he before joining Oikocredit worked as Senior Vice President and Head of Export and Project Finance for one of the largest commercial Banks in Finland. During that time he was also the Chief Representative for the Bank in South East Asia and China for three years, based in Hong Kong.

From 1978 to 1982 Tor worked with the Nordic Project for Cooperative Development in Tanzania and Kenya developing and supporting credit unions, and small-scale businesses in various parts of the countries. His experience also includes financial management positions in the Pulp and Paper Industry in Finland. Since his retirement from Oikocredit Tor has continued his involvement in the financial sector through directorships and memberships in banks, investment funds and institutions active in impact investing, microfinance and other development projects.

His professional expertise is complemented by his academic distinctions including a Masters in Accounting from the Swedish School of Economics in Helsinki School of Economics/University of South Carolina.

Mr. Loïc De Cannière
Director

Loïc De Cannière joined Incofin Investment Management as CEO in 2001. He recently became the Chair of the company's Supervisory Board.

He successfully grew the fund management company into one of the larger microfinance and impact investment fund management companies, with a strong focus on balancing financial and social returns. Today, Incofin IM manages combined total assets of more than 1 bn USD. Incofin IM manages funds focusing on investments in agri-focussed financial institutions (Rural Impulse Fund II, agRIF, Incofin cvso) an funds investing in the agri value chain and agri-food companies (India Progress Fund, Fairtrade Access Fund). Incofin advises a large German retail impact fund "Invest in Visions".

Incofin IM's investor base comprises large private institutional investors, development finance institutions. Incofin IM has a team more than 85 dedicated professionals and has offices in Belgium (Antwerp), Colombia (Bogota), India (Chennai), Kenya (Nairobi) and Cambodia (Phnom Penh). Loïc De Cannière is also Chair of the Board of Directors of the Social Perfomance Task Force (SPTF).

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

Ms. Mary Oduka Ochan
Director

Mary Oduka Ochan holds a Master's degree in Development Studies from the University College in Dublin, and a Bachelor's degree in Commerce (Marketing) from Makerere University Kampala. She has served with Irish Aid Program as Senior HIV & AIDS Specialist and as Senior Advisor in the Embassy of Ireland Uganda/Irish Aid. She has served as Country Director of Agency for Personal Services Overseas (APSO) (Irish State Agency), in Uganda and Country Director in Kenya for the same Agency.

She served as Director / Consultant Executive for Africa Development Assistance (ADA) (an East African regional NGO) ,as an Assistant Secretary for Women Affairs in Uganda Peoples' Congress Secretariat from and as Marketing Officer for Uganda Airlines Corporation (Tours and Charters). Mary has provided various consultancy services over the years.

Ms. Lydia Koros
Director

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

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

Mr. Jean-Louis de Montesquiou
Director

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

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

CPA Dr. Albert Richards Otete
Director

Albert Otete is is a member of the Professional Accountancy Organizations in Uganda, Kenya, Tanzania and Rwanda. He holds a PhD in Business Administration (Swiss School of Management), a Masters in Business Administration (ESAMI Business School) and a Bachelor's degree in Commerce (Makerere University, Kampala). He is a member of ISACA International, a Certified Information Systems Auditor (CISA), a Certified Information Security Manager (CISM) and is Certified in the Governance of Enterprise IT (CGEIT). He is an Insolvency Practitioner licenced by the Uganda Registration Services Bureau (URSB). He joined international auditing firm PwC Uganda in 1992 and gained practical accountancy practice experience for 10 years. Thereafter, he was the Head of Audit at Stanbic Bank Uganda Limited for 12 years. He is now a the Techical/Research Partner in his own accountancy practice; J.Samuel Richards & Associates, a firm licenced and regulated by the Institute of Certified Public Accountants of Uganda (ICPAU). He has written in accountancy journals/ magazines for the Institute of Certified Public Accountants of Kenya (ICPAK), Institute of Certified Public Accountants of Rwanda (iCPAR) and ICPAU as well as educative articles for the top newspapers in Uganda. He has been a Member of the ICPAU Professional Standards Committee (2017-2018), the Education & Research Committee (2019-2020) and now the Finance, Planning and Development Committee (2021 to-date).

Dr. Otete has been a Board Member of Finance Trust Bank Uganda Limited since 2016 and was the Chairperson, Board Audit Committee and a Member of the Board Risk Committee. He is also a Board Member at NITA Uganda, a Board Advisor at NSSF Uganda and Uganda Development Bank Limited.

Ms. Grace Namulinda Aliakai
Director

Grace Aliakai received a Masters degree in Electronics & Electrical Engineering from Loughborough University in 1998. Mrs. Aliakai worked for a few months at Computer Point and then moved on to MTN Uganda in 1999 where she worked for nearly 8 years. At MTN she served in a number of positions including Principal Planning Engineer - Strategic Technologies, where she was in charge of the strategic planning, setup and maintenance of international roaming and interconnection of local and international networks.

Mrs. Aliakai joined Warid Telecom in 2007 where she served as Manager Core Network Strategic Planning before becoming the Head of Carrier Business which position she held to 2010. Mrs. Aliakai also worked at ATX Technology, an entrepreneurial business with the main focus on Finance.

Mrs. Aliakai is a director at Konserve Advisory Sevices Ltd and at a Ugandan NGO, Mentoring and Empowerment Program for young Women (MEMPROW). She is also a long standing member of the Uganda Women's Trust..

Mr. Robert Kirunda
Director

Robert Kirunda holds a Masters in Law (LL.M) International Legal Studies Program (ILSP) from the American University Washington College of Law, a Masters in Law (LL.M) in international Trade and Investment Law from University of the Western Cape, South Africa, a Post graduate in Legal Practice(Bar Course), Bachelors of Laws . Robert is the founding partner at Kirunda & Wasike Advocates where he works since December 2012.

He lectures at Makerere University Kampala and has worked with JN Kirkland and Associates (Law firm), Makerere University Business School department of law and Shonubi, Musoke & Co. Advocates. He served in a capacity of a Legal Vice presidency, World Bank Group Washington D.C Intern from January to April 2008. Robert is a member of the following professional bodies- Uganda Law Society, East African Law Society, Uganda Christian Lawyers Fraternity and has authored several publications.

Mr. David Senoga
Alternate Director

David Ssenoga has 33 years' experience in banking, Microfinance, auditing and financial reporting. He holds a Master's of Science Degree in Finance and Accounting, and a Bachelor's Degree in Commerce, of Makerere University- Kampala. He holds a CPA and is an active member of ICPA(U). He also serves on Makerere University Retirement Benefits Scheme Trustee Board as the Chairperson of the Scheme's Audit Committee. Currently he is a practitioner at SDS & Company Certified Public Accountant.

Previously he practiced at partner level at Kisaka & Company Certified Public Accountants for 10 years.

Mr. Gervase Ndyanabo
Director

Gervase Ndyanabo is a Certified Public Accountant and a Certified Internal Auditor. He started his career at Coopers and Lybrand, Chartered Accountants, Kampala before joining New Vision Printing and Publishing Co. Ltd where he has served as Chief Internal Auditor, Chief Finance Officer, and currently as Deputy Managing Director and Company Secretary.

Gervase has served on several Boards including; member of the Board of Directors of the Global Institute of Internal Auditors, President of The Institute of Internal Auditors (IIA), Uganda, and member and Vice Chairman of Council of Uganda Martyrs University. He is currently the Chairman Board of Trustees of IIA Uganda, a member of the Disciplinary Committee of the Institute of Certified Public Accountants of Uganda, and President of Uganda National Catholic Council of Lay Apostolate (UNCCLA).

Gervase is an active member of Lions Clubs International and is currently the Global Leadership Team (GLT) Coordinator for Uganda.

Gervase holds a Bachelor of Commerce (Accounting) degree of Makerere University, Kampala and an MBA from Edinburgh Business School, UK.

Mr. Jeremy Hajdenberg
Alternate Director

Jérémy Hajdenberg is co-CEO at Investisseurs & Partenaires (I&P), the management company of several investment funds supporting Small and Medium Size Companies in Sub-Saharan Africa, generating social and environmental impact. Since 2002. In 2021, the teams of I&P and its partner funds include 120 professionals prepared to fund around 40 African start-up and SMEs per year, from seed stage to growth stage.

He graduated from HEC Paris Business School and holds a Master's Degree in development economics from Paris School of Economics, is a co-author of the books Le guide de la Microfinance (2009) Entreprenante Afrique (2016), the latter one with J.M. Severino and has been a member of the Presidential Advisory Council for Africa.

Ms. Patricia Kemirembe Katende
Company Secretary / Head Legal

Patricia Kemirembe Katende has over 15 years of professional experience in law and in-house legal counsel services. She is a Chartered Corporation Secretary, a member of the Institute of Chartered Secretaries and Administrators (ICSA) UK, a holder of an honors Bachelor's Degree in Law from Makerere University and a post graduate diploma in legal practice from the Law Development Centre, Kampala and currently pursuing an MBA from the University of South Wales.

Patricia is an enrolled Advocate of the High court and all courts subordinate to it. She holds a valid Law practicing certificate. She is a member of the following professional bodies; The East African Law Society, The Uganda Law Society, The Chartered Governance formerly known as ICSA. She has also attended various professional trainings in continuous legal profession development and in Corporate Governance.

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

Make your **dreams a reality** with the Trust Salary Loan.

Thanks to the Trust Salary Loan, a personal, tailored option that gives you the ability and freedom to easily meet your financial requirements, you can now successfully make your dreams a reality.

Benefits:

- Specially tailored to your personal development needs
- Flexible loan period
- Payable in manageable monthly installments

MANAGING DIRECTOR'S STATEMENT

Finance Trust Bank has exhibited sustainable growth. The bank continues to prioritise financial inclusion through product innovation, creation and strengthening of partnerships.

Managing Director
Annet Nakawunde

Bank performance

It gives me great pleasure to announce that Finance Trust Bank has continued to make key strides toward serving the nation – Uganda. The bank has increased the financial inclusion of economically active citizens with a special focus on women while steadily and sustainably registering growth on several fronts.

The bank registered a 12% growth in total assets from Shs394bn in 2021 to Shs441bn, essentially attributed to the growth in the loan book. The bank improved its revenue generation capacity, registering a gross revenue upturn year on year of 15% from Shs93bn to Shs106bn. The net loans grew by 10% year on year from shs 243bn to 266bn. The bank registered a growth of 51.3% on the customer deposit book from Shs183bn in 2021 to Shs277bn in 2022.

These key performance indicators are a manifestation of the bank's resilience post-Covid amidst the economic challenges arising out of the several global tensions that include the Ukraine – Russia war. The bank is poised to further its agenda of empowering individuals and communities economically, especially women.

As the economy recovers, we have registered an 18% growth in the number of loans disbursed and many of these facilities were extended to sectors that had been adversely affected by Covid-19 & its aftereffects: like schools and places of entertainment.

Notwithstanding the economic shocks, the bank continued to aggressively grow its customer base with an addition of over 90,000 new customers for both individuals and corporate entities. This brand affinity is attributed to our continued innovation in products and improvement in service standards.

On another exciting note, the bank relocated its Head Office to better and more accessible premises at TWED Plaza, Plot 22B Lumumba Avenue. This bold move was necessary as the demands on our brand and Head Office staff count continue to grow. We also needed to ensure better accessibility for stakeholders that had challenges accessing the bank's Head Office at our former premises in Katwe.

In addition, the bank launched its first Corporate Branch at the same premises intended to serve our high net-worth customers. We are confident that this new addition to our network of branches will offer convenience to those that need quick banking in an environment reserved for corporate entities and individuals.

Technological Innovation

The bank has made improvements to its core banking system to enable easy inter-operation with third-party systems and spur further innovation while ensuring enhanced security. This will enable acceleration in the digital innovations specifically geared towards empowering our customers' access to more self-service options from the bank. This digital enhancement will improve our turn-around time in many of the services, increase our offering on digital channels and improve the value to all our stakeholders.

Product innovation

Core to our way of doing business is the ability to quickly respond to our customer's needs. Last year, the bank made innovations in the space of ensuring financial inclusion for those that have been excluded on religious grounds.

The introduction of the Trust Halal Account, a simple account intended to eliminate the hurdles premised on interest payouts on savers accounts was a major breakthrough in the banking space for the Muslim faithfuls as the wait for regulations of Islamic banking continues.

The Trust Halal Account has no transaction fees and also receives no interest on member savings, keeping the Account consistent with Islamic laws. This account is highly appreciated by the market and will be a foundation stone upon which the bank will build its Islamic banking portfolio when regulations permit.

Partnerships

We have always relied on like-minded partners in whatever we do and 2022 was no exception on the following fronts:

The partnership with ACELI Africa aimed towards enabling the bank to venture more into the agricultural space, particularly for the SME. This move emboldened the bank to increase its funding in the entire agriculture value chain. This partnership will improve the delivery of non-bank services to SMEs in the form of training intended for capacity building and growth. Our partnership agenda deliberately extended to engaging with key farmer groups in the agriculture production value chain. Our intention is to offer our full range of banking services while preserving and improving the social and economic cohesion of our partners in the groups.

In our pursuit to reach more women, we are proud to have continued our partnership with the Nnabagereka Development Foundation (NDF). The family is core to our founding principle and women play a pivotal role in the family's wellbeing. Through NDF and the many activities aimed towards the social and economic transformation of women and children, we are proud to contribute to the very noble cause championed by Nnabagereka Sylvia Nagginda through NDF. We pledge our continued support as the objectives of this foundation are consistent with those of the bank.

The bank is playing a fundamental role in the implementation of the government's Parish Development Model (PDM) and the Emyooga programs. With this partnership, the bank has invested heavily in furthering financial literacy for economically active Ugandans to ensure capacity building and continuity for these groups. We have conducted Fin-Lit sessions for 100s of groups registered under the bank and are now in the advanced stages of integrating with the government technology infrastructure to enhance reporting and monitoring.

Our CSR

Over the years the bank has established itself as a key resource in offering financial literacy to women. Last year, we engaged over 10,000 women in various regions of the country skilling them in basic bookkeeping, financial decision-making, investment strategies, building capacity to grow their small businesses, human resource management, adaptation to new emerging technology, and dealing with the ever-changing economic environment. These trainings have improved the hitherto informal and subsistence businesses enabling them to experience growth and become more sustainable.

Core to our belief is that by reaching 10,000 women, we can impact 10,000 households, the dependents in those households and their respective communities.

We could not do this without the support of various partners. We wish to appreciate the Uganda Revenue Authority for the financial support, MUBS for its resourcefulness during the training session, and PSFU which has worked with the bank in the development of a functional financial literacy curriculum and participating actively in training programs.

> We strongly believe that by reaching **10,000 women,** we are able to impact 10,000 households, the dependents in those households as well as their respective communities.

The bank will further its agenda of supporting economic development through micro and small businesses, as well as individuals, banking and creating the right business environment for corporate entities.

Customer Service Excellency is our mantra and we shall keep improving our systems to ensure a truly differentiated customer experience.

We thank our customers for their unwavering support of the bank amidst a rather teeming financial sector.

Our staff is the true definition of commitment. Their dedication and demonstration of the bank's core values in all the operations of the bank is remarkable. On behalf of Management, we are indebted.

Finance Trust Bank's managers attending a strategic workshop at Hot Springs in April 2022

Dr. Twinemanzi Tumubweine, the Bank of Uganda Director Supervision poses with the Finance Trust Bank Exco team during the Bank's Head Office launch event at Twed Plaza in December 2022

Our Managing Director Ms. Annet Nakawunde addressing participants during one of the Banks Financial Literacy workshops at UMA hall in Kampala in April 2022

Launch of the Trust Halal Account by our Managing Director Ms. Annet Nakawunde and SALAM TV Managing Director, Hajji Karim Kaliisa

EXECUTIVE & SENIOR MANAGEMENT TEAM

Annet Nakawunde
Managing Director

Annette Kiggundu
Executive Director

Patricia Kemirembe Katende
Company secretary
/ Head Legal

Sarah Gwokyalya
Head Compliance

Percy Paul Lubega
Head Business Development

Lawrence Filly
Head Business Technology

Christine Namata
Head Finance

Fredrick Muyanja Musoke
Head Internal Audit

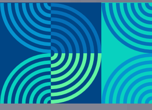
Claire Muyama Nataka
Head Human Resource

Ali Lwanga
Head Credit

Martin Acegere
Head Risk

Rachael Nantongo
Head Banking Operations

Isa Mukasa Kikomeko
Head Treasury



Dreams come true

Young Savers Accounts

Give your child the head start they deserve. Open a Young Savers Account today. Together, let's pave the way for a financially secure future!

ENVIRONMENTAL ANALYSIS STATEMENT

The global economy faced challenges in 2022 due to the Russia-Ukraine conflict, leading to increased inflation and a projected global recession in 2023. However, Uganda's economy remained resilient, with GDP growth of 4.7%. Inflation peaked at 10.7% but is expected to ease. Private sector credit growth was weak, and banks exhibited risk aversion.

Head of Treasury
Isa Mukasa Kikomeko

Economy Highlights 2022 and the outlook

Across the world, a number of shocks, including the Russia-Ukraine conflict, led to an increase in inflation and in response, many central banks, including the Bank of Uganda, raised their policy rates. This had a deleterious effect on economic output, with some of the world's major economies projected to go into recession in 2023.

Global developments and the outlook

The Russia-Ukraine conflict continues to strain the global economy through broad-based and sharper than expected consequences. These have occasioned a significant slow-down in economic activity resulting into unusually high inflationary pressures. The situation has progressively deteriorated as Central Banks across the globe attempt to curb the inflationary pressures through tightening monetary policy stance without regard to its impact on economic activity. This has resultantly worsened the cost of living conditions as it has diminished the consumers' purchasing power. The actual and expected contraction in global demand is worsening the outlook and is putting the global economy on a brink of a recession.

The IMF report of October 2022 projected a slow down in global output growth from the 6.2% recorded in the year 2021 to 3.2% for the year 2022 and to 2.7% for the year 2023. Growth in Advanced Economies was revised downwards and forecast to slow down from 5.2% in 2021 to 2.4% in 2022 and further down to 1.1% largely as a result of a slow down in the US economy. Whereas some sectors in the Euro area such as tourism and manufacturing have exhibited recovery their impact is likely to be crowded out by factors such as the tighter financial conditions, the gas crisis associated with the Ukraine war combined with the humanitarian costs arising out of displaced Ukrainians. In Emerging Markets and Developing Economies (EMDEs) growth was projected to close at 3.7% in 2022 down from 6.6% in 2021 and stay unchanged in 2023. In addition to the Ukraine war the other factors that are weighing into these downward revisions include the extended COVID lockdowns in China a major trading partner for most EMDEs.

The balance of risks is firmly tilted to the downside and could spill over to the domestic banking sector and weigh heavily on the country's growth, with negative cross-border effects, widespread debt distress in vulnerable Emerging Markets while intensification of geopolitical fragmentation could impede trade and capital flows (International Monetary Fund, 2022).

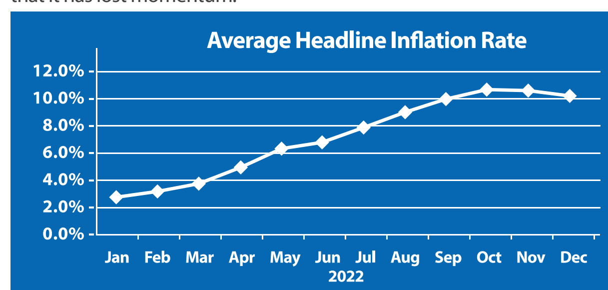
The global slowdown portends a contraction in demand for Uganda's exports while the slowdown in China and tightening global financial conditions means reduced financial support and debt distress to EMDEs and developing economies, and depreciation pressures on currencies of these economies. These would complicate both fiscal and monetary policies in these economies including Uganda.

Domestic developments and the outlook

Despite the aforementioned trends across the globe, the Ugandan economy proved resilient, with real GDP expanding by 4.7 percent in FY2021/22 supported by the strong industrial and service output growth that more than offset the decline in growth in agricultural output. Similarly, the growth rate in economic activity as measured by the high frequency indicator of activity the Composite Index of Economic Activity (CIEA) is assessed to have improved by 5 folds in the quarter to Dec 2022 relative to the quarter to Sep 2022.

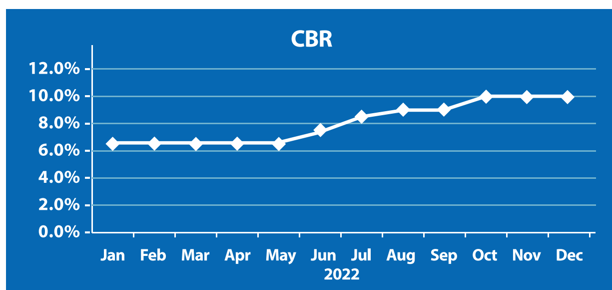
On the outlook, Economic growth is expected to be even stronger in FY2022/23 returning in the ranges of 5.0%-6.0% supported by increased external demand for Uganda's exports, a significant rebound in foreign direct & private investments together with better supply chain conditions, improvement in agriculture productivity owing to government interventions, investments in the oil sector and a rebound in industrial activity. This growth is however, expected to be modestly high in the medium term but will firm up in the outer years. In specific terms, economic growth is projected to remain below its long-term trend of above 7.0% until FY 2025/26. Moreover, this growth is subject to downside risks including; lower than expected global growth, lower commodity prices, unfavourable weather conditions, a resurgence of supply chain disruptions due to the potential escalation of geopolitical tensions and the risk of high domestic inflation that could trigger further tightening of monetary policy.

Inflation peaked to levels of 10.7% in October 2022 having started the year 2022 at levels below 3.0%. This was the highest in the last decade having maintained an upward trend from start of year despite an environment of weak aggregate demand. The persistent rise in inflation was occasioned by a combination of factors that included; geopolitical tensions that triggered supply chain disruptions and the prolonged drought that exacerbated pressure on food prices alongside the pass-through effects of COVID-19 that had not completely waned among others. At the current levels of 10.4% inflation remains persistently high though signs are clear that it has lost momentum.



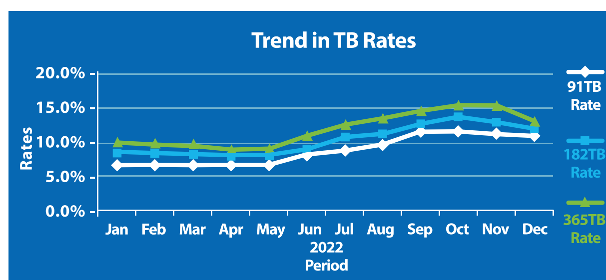
On the outlook, inflation is projected to ease on the account that the high prices of imported commodities are disappearing unless renewed price pressures from the escalation of geopolitical tensions materialize. Said otherwise, supply chain disruptions have been easing over time and global commodities prices continue to ease. The wedge between headline and core inflation has been widening since March 2022, clearly indicating that the escalation of inflation is purely due to supply disturbances whose impact has been intensifying with limited passthrough to core prices which is not unexcepted in an environment of weak aggregate demand. The lagged impact of the drought which has been putting upward pressure on food prices is the remaining key driver of inflation although is deemed to be short lived and would dissipate soon with onboarding of current season's harvests. Inflation is now projected to average between 6% and 8% for the year 2023 and to stabilize around the medium-term target of 5% on the account of the dissipating impact of the earlier increases in global commodity prices, subdued domestic demand, effects of the current monetary policy stance, expected decrease in domestic inflation and lower exchange rate depreciation.

The Central Bank Benchmark Rate (CBR) rocked a 10% in October 2022, the highest level in the last three (3) years having maintained a persistent rise from 6.3% in May 2022. This trend was in response to the steady rise in inflation as anchored in the preceding section. At the Monetary Policy Committee meeting of February, the Central Bank decided to sustain the CBR at 10% for the fifth consecutive month sighting the uncertainties surrounding the economic outlook. The Monetary Policy Committee assessed that sustaining the CBR at 10% suffices to contain domestic demand pressures while accommodating and supporting economic recovery. The Monetary Policy Committee highlighted risks to the inflation trajectory to include: the impact of international financial conditions on the shilling, slower adjustment in domestic demand due to tight monetary & fiscal policies, higher food crop prices due to unfavourable weather, faster global economic recovery & a faster increase in global energy prices and a resurgence of supply chain distortions due to heightening geopolitical tensions, noting that that these have potential to reverse the inflation outlook hence the need to take precautionary positions. Inflationary tendencies remain the key driver to the benchmark rate and the Central Bank is committed to revising the CBR downwards once inflation sustainably returns to the medium-term target of 5.0%.

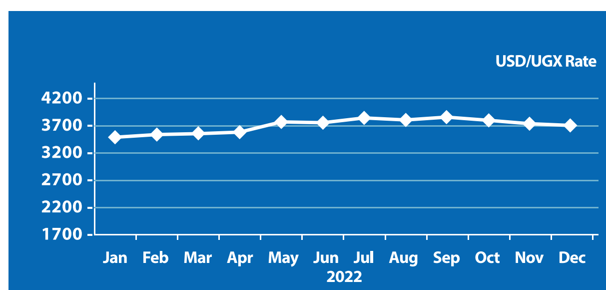


Interbank money market rates remained well anchored around the CBR throughout the year 2022 and as such maintained an upward trajectory similar to the CBR. In the quarter to Dec 2022 the seven day and overnight interbank rates averaged 11.5% and 10.4%. The interbank market was characterised by high volumes of liquidity throughout the first half of the year 2022 and this excess structural liquidity was beginning to spill over to the interbank foreign exchange market. To manage the spill over, on 23rd June 2022 the Central Bank increased the Cash Reserve Requirement (CRR) from 8% to 10% of deposits. The pass-through effects of this was to also tame the interbank money market rates that could have potentially fallen out of the CBR range.

Yields on government securities moderated in the first part of the year, in part reflecting the accommodative monetary policy stance. Resultantly, the 91-day, 182-day and 364-day yields remained broadly stable in the quarter ended Feb 2022 averaging 6.7%, 8.6% and 10.1% relative to the averages of the quarter ended November 21 that were largely in the same ranges. On the other hand, yields on long dated securities rose to reflect the anticipated increase in domestic financing. The curve remained largely flat in the middle part of the year to June following which yields started rising at the short end until they peaked in October 2022 at levels of 11.5%, 13.9% & 15.5% respectively for the 91-day, 182-day and 364-day bills while the curve remained relatively flat at the long end. This was on account of tightened funding conditions as well as government preference to avoid locking-in high interest rates for longer durations. Subsequently yields have continued on a dipping trend to-date partly due to reduced demand from Government following the decision to substitute a portion of domestic borrowing with external debt. All auctions for Treasury Bills continue to be oversubscribed, with an average bid to cover ratio in excess of 2 times.



The shilling remained largely stable as measured against the United States Dollar for a better part of the year 2022 trading in the ranges of USD/UGX 3600/3750 and posting better in the last quarter of the year relative to the rest of the period. This was supported by the tightening of the monetary policy stance that in turn screwed-up liquidity conditions in the money markets, the recent decline in commodity prices such as crude oil, increase in remittances ie strong seasonal inflows from remittances as the year was winding up, the increased foreign direct investment in the oil sector and the easing of the strengthening of the US dollar globally after the fade announced a slowing down of the pace of monetary policy tightening. Going forward, the exchange rate outlook is dependent on global developments, particularly the pace of monetary policy tightening in the advanced economies which is expected to slow down. However, the inflation outlook remains uncertain due to the ongoing evolution of supply shocks. While the factors that have elevated inflation over the past year are reversing, it will take some time before the effects pass through the prices paid by consumers.



Lending rates generally exhibited a moderate increase with commercial banks raising their prime lending rates by about a percentage point on average as the year came to a close. The overall shilling lending rate rose to levels above 18% by October 2022 relative to 15.3% in July 2022. The increase in rates is a sign that the effect of tight monetary policy is permeating from the money market through the securities market to the credit market. Notable increases of shilling rates were observed across all major sectors of Agriculture, Manufacturing, Trade and Personal and Household loans.

Private Sector Credit (PSC) growth remained weak and below historical trends. The growth rate fell to 15.5% year-on-year in the quarter to October 2022. Lenders continue to exhibit risk aversion as evidenced by the declining approval rate despite the increasing demand for credited as proxied by the loan applications. The approval rate trended below 60% through the year 2022 and this remains sizeably low for an economy that is assessed to be on a growth path. The fact that credit demand is rising much faster, yet PSC is slowing could be an indication that banks are concentrating on loan recoveries more than extension. The asset quality remains a key challenge and until this is resolved, PSC growth will remain modest.

HUMAN RESOURCE STATEMENT

In 2022, our Board and Management conducted job evaluations, aligning staff capabilities with the new business model. External training was prioritized, with 82% facilitated by external experts. Promotions led to 85% of existing talent taking on new roles. An employee satisfaction survey showed 96% were proud to work with us, with some concerns about career growth and benefits. We will address feedback in 2023 to maintain a motivated workforce.

Head Human Resource
Claire Muyama Nataka

The year 2022 was the year our Board of Directors and Management took the initiative to conduct a Job evaluation and grading exercise to determine:

a. The sufficiency of the current structure and staff capabilities in implementing the Corporate Strategy and providing career growth for our staff.
b. Underlying factors that affect execution.
c. The value and contribution of each job in light of the changing tasks that will support the new business delivery model.

Capacity Building

In view of the above, focus has been on building capabilities of existing teams to manage change and realigning teams to fit into the new business model.

Specialised training in Transformational Leadership, Change Management and High Impact Leadership were undertaken by our senior management team. This was a deliberate action taken by management to prioritise trainings and activities that support change management through the year. Only 18% trainings were internally facilitated by our subject matter experts while 82% of the training events were conducted by external facilitators. Our staff participated in both local and international trainings. This was intended to have our staff get another perspective on how business is executed and replicate the same for better performance.

Staff Retention

Emphasis has also been on growing internal capabilities and promoting career growth as a retention strategy. We experienced 85% of our existing talent take up roles through promotions as a result of competing for internally advertised jobs. This has led to stability of talent at middle management and holders of supervisory roles. We, however, experienced attrition at entry level jobs which has become our area of concern and focus in 2023.

We delivered this year's business agenda with a head count of 878 of which 52% of our workforce is between the age of 25 – 35 years, 35% (36 – 50 years) 12% are 50 years. Further to that, 80% are customer interfacing roles and 20% support roles. We will continue to leverage the young workforce because of their willingness to learn, enthusiasm, innovative and diverse mind set to improve productivity since they form a majority of the head count.

Employee Statisfaction

An employee satisfaction survey was conducted as a crucial component of management. Insights on how to continuously improve systems, processes and the workplace were shared by staff. 96% of staff were proud to work with Finance Trust Bank and would recommend the bank to others. The 4% expressed dissatisfaction due to the limited opportunities for career growth and promotion, limited allowances and staff benefits.

We value feedback from our staff and will continue modelling our interventions and initiatives in 2023 to addressing areas of concern as identified by staff and also maintain a highly motivated and agile workforce.

Management Strategy meeting at Hot Springs Hotel in Ndejje.

RISK STATEMENT

Despite the exogenous challenges, the bank's balance sheet continued to grow year on year demonstrating her resilience in the face of adversity.

Head Risk
Martin Acegere

The Year in Hindsight

There is no debate that 2022 was a challenging year for the world economy despite the short-lived optimism at the start of the year following the contraction in the infection rates of the Covid -19 pandemic in the later months of the preceeding year owing to the extensive vaccinations across the globe.

The geo political tensions arising from the Ukraine – Russia war and the resultant undertones of brewing cold war pitting China and Russia on one side against America and the NATO allies on the other side led to far reaching negative consequences for the recovering world economy. Resultantly, global inflation rose to unprecedented levels since the financial crisis of the early 2000's due to the supply chain disruptions, high oil and commodities prices driven by low production and sanctions on Russian exports.

Consequently, local inflation increased above the target of 5% to climax at 10.6% in 2022 on account of imported inflation. This was festered by high food prices on the backdrop of poor harvests driven by poor rains in the first season of the year under review, high fuel pump prices reaching a record high of UGX 6,000 per Litre and depreciation of the Uganda shilling against the US dollar to trade at UGX 3,800 per Dollar. Accordingly, operational costs for enterprises and the cost of living for most homesteads increased affecting their marginal propensity to save and ability to meet their obligations. Whereas demand for loans remained sustained, a proportion of the financing demanded by enterprises and households was targeted towards servicing the high operational costs and cost of living for the enterprises and homesteads.

In order to rein in the increasing inflation, the Government through the Bank of Uganda, raised the Central Bank Rate to record levels of 10% since 2011. As a result, interest rates for Government securities levitated over the course of the year pushing market interest rates upwards.

Despite the above exogenous challenges, the Bank's Balance sheet continued to grow Year on Year demonstrating her resilience in the face of adversity; meeting our stakeholders' expectations in an environmentally sustainable manner while impacting lives of our clients and the communities we serve. This was possible by targeting the woman who is the bedrock of the family; the smallest governance unit of society as emphasized in our tagline "Putting Women First." This has been possible because of the Bank's commitment to continual improvement in its Risk management process which is a key aspect of Good corporate governance and forms the guardrails to strategic and operational excellence.

Suffice to mention that with the continued digitization of bank processes and service delivery, the threat surface of cyberattacks is ever increasing making the Bank susceptible to threats that may expose it to financial loss. The corporate or customer data breaches have far reaching negative consequences. Regrettably, the Bank suffered a cyber fraud leading to financial loss. Fortunately, through the Bank's risk monitoring systems, the fraud was detected and stopped before colossal damage was inflicted on the Bank and its clients. The Bank has put in place controls to address the vulnerability exploited and improved the IT security risk posture through investing in the latest technologies.

With new emerging risk trends and evolving traditional risks, the regulatory space is always changing at a fast pace increasing the cost of compliance and the human resources required to ensure that the Bank remains compliant. In the year under focus, the Central Bank raised the minimum paid up capital requirement for Tier I Supervised Financial Institutions from UGX 25bn to UGX 120bn by 31st Dec 2022 and UGX 150bn by 30th June 2024. By 31st Dec 2022, the Bank was yet to comply with the new capital requirement but requested the Central Bank to allow it to use the 180 days window provided for in the Financial Institutions Act to mobilize the required capital.

The on-site and off-site ratings for the year were both rated at Fair which is a score of "3" on a scale of 1 - 5 with "1" representing Weak while "5" representing Strong rating.

Risk Governance

The Board of Directors

The Board of Directors has the ultimate responsibility for the level of risk undertaken by the bank. It approves the overall business strategy and the policies to ensure that Senior Management is fully capable of managing the strategic activities in a manner that limits risks.

The Board has delegated its risk-related responsibilities primarily to the following committees: The Board Risk Committee (BRC), Board Audit Committee (BAC), Board Compesation Committee (BCOMC), Board Asset and Liability Committee (BALCO) and Board Credit Committee (BCC) with each committee focusing on different aspects of risk management.

Management Executive Committee

Management EXCO is responsible for implementing the approved strategies and policies in a manner that limits risks associated with each strategy. Management EXCO is responsible for the daily oversight of all principal risks impacting FTB and have delegated authority from the Board to assist its subcommittees effectively fulfil their risk oversight mandates. The Management Risk Committee (MRC), Management Asset and Liability Committee (MALCO), Human Resource Committee (HRC), Management ICT committee (ICT COMM), Operational Risk Committee (ORC) and Management Credit Committee (MCC) are management committees responsible for risk management within the bank.

Management EXCO is also responsible for establishing and communicating a strong awareness of and need for effective internal controls and high ethical standards.

Risk Management Department

To coordinate the implementation of the risk management process, the Bank has in place an independent risk management function that reports to the Board Risk Committee on a quarterly basis and monthly to the Management Risk Committee.

The Risk Management Department on a pro-active basis identifies, analyses, evaluates and develops treatment options and risk acceptance criteria for the available options. The Risk Management Department ensures that the Bank takes risks that are warranted i.e. risks that are understandable, measurable, and controllable and within the Bank's risk bearing capacity to readily withstand adverse results.

The Risk Management department is responsible for the coordination of development of policies & procedures and ensuring an adequate internal control environment that encourages mitigation of risks. This is complemented by risk awareness and sensitization across all levels aimed at cultivating a culture of risk consciousness.

The Risk Department is also responsible for the coordination and facilitation of specialised operational risk management processes, including business continuity management and Fraud management.

Business Units

Business units own and manage the principal risks inherent in the activities they perform and are also responsible for deploying the appropriate controls to ensure risks are within acceptable tolerances.

Internal Audit

Internal Audit is mandated by the Board to provide independent and objective assurance and advisory services designed to add value and improve operations. Internal Audit provides assurance to the Board and Executive Management on the effectiveness of governance practices, risk management and controls designed to mitigate risks.

Risk Management Process

The Bank manages risk through coordinated set of activities for identifying, analyzing and evaluating whether the risk should be modified by risk treatment in order to satisfy its risk criteria.

The Banks risk management process is initiated through establishment of the context of risk management. By establishing the context, the Bank articulates its objectives, defines the external and internal parameters to be taken into account when managing risk, and sets the scope and risk criteria for accepting the risk. Determination of the scope of risks is followed by risk identification, assessment, treatment and monitoring.

Risk identification: Involves finding, recognizing, and describing the risks that could influence the achievement of the bank's strategic objectives. It considers a 360 degrees approach since every delivery channel, product and service offered by Finance Trust Bank has a unique risk profile composed of;

Risk Assessment: Involves analyzing and evaluating the likelihood and consequences of each identified risk and deciding which risk factors will potentially have the greatest effect and should, therefore, receive priority with regard to how they will be managed. The level of risk is analyzed by combining estimates of likelihood and consequences, to determine the priority level of the risk.

Risk treatment: Involves identifying the range of options for treating the risk, evaluating those options based on significance of the risk, whether the cost of the option is commensurate with the benefits of treatment, preparing the risk treatment plans and implementing those plans. The bank adopts the following four strategies in treatment of identified risks; Risk Transfer, Risk Avoidance, Risk Reduction and Risk Acceptance.

Risk monitoring: Risks generally do not remain static and the factors that may affect the likelihood and consequences of an outcome may change, as may the factors that affect the suitability or cost of the various treatment options. Monitoring ensures that the bank modifies or changes the risk treatment strategies as the risks evolve.
Risk communication: reporting to the stakeholders of the Bank.

This Risk management process is implemented across the three lines of defence as defined by the COSO framework;

1st Line of Defence: constitutes the business units who are the process owners that generate and are responsible for management of risks on a day to day basis. They are tasked with the execution of a comprehensive internal control system

2nd Line of Defence: Constitutes the Risk and compliance functions of the Bank. They support management in ensuring that adequate controls are in place and all risks are managed appropriately and effectively.

3rd Line of Defence: Constitutes the Internal Audit function which provides assurance to Senior Management and the Board that the first and second lines' efforts are consistent with expectations.

Risk Profile

The Bank is faced with internal and external factors that influence the way we do business and make it uncertain whether and/or when the bank will achieve its objectives. The effect of this uncertainty to the achievement of the Bank's objectives is defined as a "risk" (ISO 31000). The bank has grouped the different risks into broad risks categories including; Strategic, Operational, Credit, Liquidity, Market, Compliance, Legal and Reputational risks.

Strategic Risk:

The Risk of current and prospective impact on the Bank's earnings and capital arising from adverse business decisions, improper implementation of decisions or lack of lack of responsiveness to changes in the industry and operating environment.

Strategic risks and opportunities may affect Finance Trust Bank's strategic goals, and these include economic and political developments, anticipating and timely response to local and global market circumstances.

As was noted above, the operating environment was largely difficult marked with high inflation driven by global food inflation and high fuel and commodity prices arising from the Geo-political tensions affecting both household and enterprise incomes. due to high cost of living and cost of doing business leading to slowdown in economic activity. China's aggressive "zero Covid-19 policy" gave rise to continuous lockdowns in China leading to significant supply chain disruptions hence fuelling global inflation rates and affecting global economic recovery. Resultantly, the bank registered a year on year increase in operating expenses and a surge in the Non-Performing Loans due to slow economic recovery.

The MOFPED issued statutory (Revision of Minimum Capital Requirements) Instrument, 2022 in which the minimum paid up capital for financial institutions transacting the business of a "bank" shall not be less than six million currency point's equivalent to Ushs. 120bn by 31st Dec 2022 and seven million five hundred thousand currency points equivalent to Ushs.150bn by June 2024. The Bank was yet to comply with the new capital requirements by Dec 2022.

Way forward:

Whereas the Bank did not hold the required paid up capital by Dec 2022, the bank is in the process of sourcing the required capital resources to ensure compliance by 30th June 2023 as per the Capital plan approved by Bank of Uganda.

Credit Risk:

The risk of loss arising from failure by a borrower or counterparty to meet their obligations as per the terms and conditions.

The Bank's lending activities contribute the largest exposure to credit risk with the loan portfolio accounting for 72% of the bank's revenues. The ratio of non-performing loans to total gross loans decreased from 8.3% in 2021 to 5.8% in 2022.

This is attributed to the challenging economic environment, poor rains affecting the agriculture sector, high staff turnover rates among the credit staff affecting portfolio stability and moral hazards by some staff. Resultantly, the write off ratio and the provisions increased as highlighted in the Audited financial statements on pages 42-99.

The other source of credit risk relates to counterparty obligations which remained within acceptable levels with the Bank dealing with counterparties with strong and satisfactory ratings.

Way forward:

From the analysis of the credit portfolio, it is evident that staff especially those engaged in Agricultural lending required skills enhancement. This was the focus for credit trainings supported by our partners notably Aceli.

To strengthen and increase oversight over the recovery function, the unit was elevated to a fully-fledged department headed by Head of Recovery and reporting to the Managing Director.

Operational Risk:

The risk of loss arising from failure or inadequacy of people, internal processes, systems or external events. Inherent operational risk is high for financial service providers given the varied points of failure due to large number of service points, high reliance on technology, several processes to deliver services and risks associated with people including moral hazards, high staff turnover in the financial services industry and increasing cyber threats.

People are an invaluable asset to the Bank but are also a possible threat to the existence of the institution if they are misaligned to the goals of the Bank. Among the key people risks that we have observed is the high staff turnover especially amongst the officer categories with the trend resonating throughout the banking industry. The frequent movement affects the execution of the corporate strategy as staff at this level are responsible for the last mile delivery of services. As earlier mentioned, the Bank suffered a cyber breach leading to loss of funds early in the year. Whereas the breach was timely detected through the Bank's risk monitoring to minimise the financial loss and avert reputational risk, the loss was regrettable. The cause of the breach was established and remedial actions instituted.

Way forward:

Furthermore, the Bank initiated an upgrade of the Core Banking System to an Open API system to enhance systems interoperability to enhance efficiency and keep up with the Bank's growth.

The Bank conducted a Job evaluation exercise to address the staff issues raised in the prior years' staff satisfaction surveys. The implementation of the recommendations from the Job Evaluation exercise is ongoing and once fully implemented, is expected to address the high staff turnover.

Market Risk:

The risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments caused by adverse movements in market variables such as equity and commodity prices, and currency exchange and interest rates.

Interest rate risk: The Bank maintained impressive liquidity ratios throughout the year above the regulatory and internal limits further affirming the Bank's solvency and ability to meet its obligations at an optimal cost. The Bank maintains a Liquidity Contingency Plan that provides clear guidelines on sourcing for funds in the event that the ratios go below the risk tolerance limits.

The sustained high inflation over the course of the year led to Bank of Uganda raising and maintaining the Central Bank Rate at 10% influencing rates for Treasury Bills and Treasury Bonds upwards making them very attractive to investors at the expense of commercial banks. This led to an increase in the cost of funding. With the bank relying on fixed deposits to cover shortfalls in savings and demand deposits that registered slow growth, the bank's cost of funding edged upwards.

Foreign Exchange risk: The bank does not hold substantial assets and liabilities in foreign currency with the stock of foreign currency held in only US dollar primarily for settling FX denominated obligations in foreign currency Exchange business. Movements in FX rates may lead to revaluation gains or revaluation losses depending on the Bank's closing Net Open Position. The Bank has instituted limits to minimise exposure from the stock of assets and liabilities held in FX.

Way forward:

The Bank reviewed its structure to create a robust Business function charged with the responsibility of growing both assets and liabilities. The new structure provides interlinkages between Head office business resources, Regional Offices and Branches. The Title of Loans officers was modified to Relationship officers and charged with mobilization of both deposits and loans. This is aimed at creating a strong base of savings and demand deposits to support the growth in the loan book and investment.

Compliance risk:

The risk of legal or regulatory sanction or financial loss or damage to resulting from failure to comply with laws, regulations, codes of conduct, internal policies, and standards of good practice applicable to its financial activities.

The local regulatory space for supervised financial institutions is fast evolving in consonance with the ever changing operating environment characterised with evolving and emerging risks. The Bank has a framework for ensuring compliance with regulatory requirements, laws of the land and internal policies.

It provides for a structured process of assimilating new regulations in the bank policies and procedures, provides for continuous training and awareness on new and existing regulatory requirements and an escalation matrix for breaches. Over the period in focus, the bank complied with regulatory requirements with the exception of the minimum paid up capital requirement of UGX 120bn by Dec 2022.

Way forward:

The bank submitted the capital restoration plan and received a NO objection from Bank of Uganda; and is currently sourcing for capital to comply with the revised minimum paid up capital requirement.

Legal Risk:

The risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, or improper application of laws and regulations that apply to Finance Trust Bank business.

The largest proportion of the Bank's litigation risk arises form lending operations often involving clients trying to impede or delay the recovery processes. Majority of the cases are frivolous in nature and lack locus however the opportunity cost of time spent attending court rather than business engagements and expenses attached to court processes negatively impact the Bank.

Consequently, with the increasing Non Performing Loans, the number of Litigation cases for and against the Bank increased in the year under review.

Reputational Risk:

The risk of potential or actual damage to the Finance Trust Bank's image which may impair the profitability and or going concern of its business.

FTB did not register any incidents with material impact on the bank's reputation and brand image. The Bank digitized the customer complaints system for timely tracking and resolution of customer complaints.

In order to enhance its visibility and appeal to clients in the institutions and corporate segments, the bank relocated its Head office from downtown Katwe to an uptown location on Lumumba Avenue in Nakasero and also engaged in several financial literacy trainings for women in the different parts of the country to enhance its visibility and in fulfillment of its social objectives. The bank's staff live by the Bank's core values of Integrity, Teamwork, Customer focused, Excellence, Accountability and Learning and Innovation.

The Bank has zero tolerance to poor customer service.

Emerging Risks

Environmental Social and Governance

The risk relates to Finance Trust Bank's ability to achieve its strategy and remain a going concern arising from direct and indirect impacts on the environment, society, and governance.

At FTB, we are cognizant of the potential effects of environmental degradation on our business and strategic goals. With our focus on extending financial services especially to women who majority are involved in agricultural activities, we fully recognise the importance of sustainable usage of the environment in impacting the societies where we operate. The Bank developed an ESG framework with performance indicators to extend its agenda beyond financing and demonstrate its commitment to sustainable operations. The Bank continuously seeks for partners to support it in this agenda and on boarded Aceli who incentivize Agricultural financing that meets ESG criteria.

Information and Data Privacy and Protection

FTB corporate and client data is a valuable resource that is a source of competitive advantage and as such is managed with the strictest confidentiality in line with the Data Protection Act. Misuse of data either intentionally or otherwise can have reverberating impact on the Bank ranging from financial loss, reputation damage, litigation and regulatory sanction.

To ensure effective oversight over data management, the Bank appointed the Head of Compliance as the Chief Data Protection officer supported by an assistant to ensure that the Bank is safeguarded against the aforementioned risks.

Internal Capital Adequacy Assessment Process

It is the articulation of the capital management processes within the Bank and an internal assessment of the level of capital required to be held, against all risks the Bank is or may become exposed to, to meet current and future needs in light of the ever changing operating environment. It forms the basis of the Supervisory Review and Evaluation Process (SREP) discussions with the Bank of Uganda.

The ICAAP is based on the current strategic plan which includes a forecast for the next five years 2023 to 2027, which has estimated growth in deposits, loan book, Investments portfolios and other strategic growth aspirations. The assessment for capital required to cover risks for the projected business plan for 2023 indicates that the bank's current capital resources are inadequate to cover the anticipated risks. During the strategy planning, the bank projected to grow the capital resources through retained earnings and capital injection.

Relatedly, the bank was yet to comply with the revised minimum paid up capital requirement of Ugx 120bn as at Dec 2022. The bank submitted the capital restoration plan and received a NO objection from Bank of Uganda; and is currently sourcing for capital to comply with the revised minimum paid up capital requirement. This capital once on boarded, shall cover the deficit assessed in the ICAAP.

CUSTOMER TESTIMONY

Mrs. Florence Kaluuba, a loyal customer since 1988, shares her inspiring journey of entrepreneurship and social impact with Finance Trust Bank.

Mrs Florence Kaluuba has been banking with Finance Trust Bank since 1988 which qualifies her as one of the oldest customers of the bank.

In the following interview, Mrs Kaluuba a mother and an entrepreneur takes us on a journey of personal triumph and transformation, from conceiving the idea to provide quality affordable education to infants, to giving dropout teenage mothers a second chance through vocational training.

This interview is a story of one woman's passion to cater to the vulnerable with Finance Trust Bank as a partner over the years.

Qn1: For our audience, we would like to get to know who is Mrs. Florence Kaluuba?

My name is Florence Kaluuba Nakacwa, widow of the late engineer Dr. Kaluuba. I am a proud mother and a teacher by profession with an active role in the education sector having founded three education institutions: Mirembe Infant School, Mirembe Community College Kyebando and Mirembe Community College Busiika.

Qn2: Just for clarity, we would like to know, when did you start banking with Finance Trust Bank?

I started banking with Finance Trust Bank in 1988 shortly after a humble beginning of founding Mirembe Infant School with only one room. At the time of joining, the bank was called Uganda Women's Finance and Credit Trust (UWFCT). Ever since then I've been a proud customer of the bank and witnessed all its transformations along the way.

Qn3: At the time, what were the key aspects that informed your decision to choose us as your preferred bank?

At the time of deciding on a banking partner, I had quit teaching at Gayaza Junior School and a newlywed. I had recently decided to move away from formal employment and start my own business of running a school.

At the time, I had decided to focus on starting an infant school because of the scarcity of infant schools in the area, and for the few that existed they were quite steep in fees that many parents could not afford.

As a former teacher, I was qualified to provide children with a quality education but in order to meet the parent's economic circumstances, the initial investment of the school was humbler in stature due to my limited resources at the time.

In the beginning, Mirembe Infant School was housed in a brick-laid single room with a papyrus and polythene structure at the top serving as a roof. As you can imagine such a structure always proved unfit when it faced the extremes of the weather. Looking back today, this was a journey of a thousand bricks well laid to what we see today.

From these simple beginnings, it was clear that in order for my venture to survive, there was a need for financing from a bank. But this being my first venture I needed a bank that could understand what I was building and the struggle ahead of me.

A friend of mine and an existing customer at the time recommended that to keep the venture alive I should try Uganda Women's Finance and Credit Trust present day Finance Trust Bank. A key aspect that soothed my concerns was the inclusion of the word "women" in the bank's name. As subtle as it was, it made me feel like the bank could understand my challenges as a woman starting a business. And that's how I made my decision to select Finance Trust Bank as my banking partner.

Qn 4: Over time, do you feel that the bank has been able to meet your expectations in regard to the aspects mentioned above?

After opening an account with Uganda Women's Finance and Credit Trust, I became an active borrower as I took out loans from the bank to enable me to run the school. The loans accessed were developmental loans that helped me buy furniture for the school and add extensions to the facilities by adding Middle and Top Classes to our Baby Class.

By 1996, Mirembe Infant School had 15 teachers and had grown to cater to teenage mothers. The Infant school run during the day and in the evenings, vocational training was offered to teenage mothers. Part of the items I bought with the loan were sewing machines that enabled the evening session of girls to learn how to tailor clothes.

> Mrs. Florence Kaluuba has been banking with Finance Trust Bank since 1988, which qualifies her as one of the oldest customers of the bank.

> A key aspect that soothed my concerns was the inclusion of the word 'women' in the bank's name.

> My key recommendation to Finance Trust Bank is for the bank to continue supporting women-led initiatives that are geared toward social change.

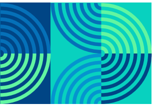
With the sewing machines, the girls were able to produce the institution's uniforms and even complimented my family by providing extra clothing to my children.

However, due to the expansion and demand for vocational education, I was encouraged to separate the two programs and formally start Mirembe Community College which was at the time located at Kyebando.

Finance Trust Bank has been instrumental in all these milestones until 2010 when I finished my last loan and I later got support from a donor to help me run the facility and continue helping the vulnerable youth.

Qn 5: In the period that you've banked with us, what has been your general experience and what challenges have you faced?

The good thing about banking with Finance Trust Bank has been the easy access to the bank premises which has enabled me to maintain an account with the bank.



Qn 6: As part of the bank's initiative to extend access of its services to customers, we launched our digital channels which are Trust Mobile, Internet Banking, Trust Cash ATM card, and Agent Banking. Have you tried to use any of these channels?

I am an avid user of the agent banking service. I am able to use my account even where the Bank has no physical presence.

Qn 7: Are there any recommendations for Finance Trust Bank to consider?

My key recommendation to Finance Trust Bank is for the bank to continue supporting women-led initiatives that are geared toward social change. As a women-led bank, this would be a good opportunity for the bank.

My second recommendation for the bank is to continue financial literacy trainings for customers and vulnerable groups.

Qn 8: Is there any advice or recommendations for other long-term customers, or for people who may be considering opening an account with Finance Trust Bank?

Yes, I strongly recommend customers to bank with Finance Trust Bank. I personally have 3 of my children and the wives of my sons banking with Finance Trust Bank.

CORPORATE SOCIAL INVESTMENTS

Mr. Percy Paul Lubega, the Head of Business Development for Finance Trust Bank, listens as one of the attendees at the Women's Financial Literacy Training in Lugogo shared her story.

Women's Financial Literacy Training

Finance Trust Bank's interventions aimed at enabling women's holistic health have succeeded on two major principles. First by forging strategic alliances and collaborations and secondly the deliberate recruitment of women in key positions to ensure the women's agenda does not fall off the radar in development-related matters.

The Bank is sold out to the fact that Women's financial literacy is a game-changer in improving women's livelihoods and this will cause a trickle-down effect to the whole family through education of children, provision of balanced meals to their households, better treatment of diseases and improved
wellbeing of communities.

The bank held 10 financial literacy trainings in various districts including – Arua, Iganga, Kampala, Jinja, Kayunga, Ishaka, Mbarara, Masaka, Gomba, Soroti and brought together women in the thousands to equip, educate and inform them on matters of their financial wellbeing. These financial literacy sessions are the flagship events for the Bank's continued community engagement.

International Girl Child Day

The Bank carried out Financial Literacy Trainings for young mothers and shared information on mindset change. Most of the girls are teenage mothers and school dropouts. They were encouraged to open accounts to financially empower themselves through economic activities.

Caring for our staff: Monitoring vital signs to ensure well-being and safety at Trust Care Hospital Cash.

Trust Care Hospital Cash and COVID-19 Vaccinations

The bank in 2022 rolled out the Trust Care Hospital Cash product for savers after 6 successful years of offering our loan customers, the Hospital Cash facility to help them lighten their financial burden whenever they fall sick. The Bank through its partners was able to pay hospital cash of up to UGX 80,000 per night to loan customers including those affected by COVID-19.

Due to the growing demand to include savers in this program, a partnership with AAR insurance was instituted coupled with COVID-19 vaccination of people to contain the spread and effects of the disease. The Bank vaccinated over 2000 Ugandans offering the 1st and Second dose for Pfizer and AstraZeneca in partnership with Ministry of Health.

Finance Trust Bank launches new Head Office

Dr. Twinemanzi Tumubweine, the Bank of Uganda Executive Director Supervision poses with the Finance Trust Bank Founding Members during the Bank's Head Office launch event at Twed Plaza in December 2022.

At the ceremonial opening of the Head Office and Corporate Branch, Mr. Tumubweine Twinemanzi, Executive Director, Bank Supervision Directorate of the Bank of Uganda, is joined by a number of the Founding Members, Board Members, and Senior Management.

Launch of Trust Halal Account

Launch of the Trust Halal Account by our Managing Director Ms. Annet Nakawunde and SALAM TV Managing Director of, Hajji Karim Kaliisa.

Branch Relocations

The bank relocated 3 of its branches to more spacious spaces in a bid to improve our customer's banking experience as they interact with our services.

The bank relocated its Kabarole, Kapchorwa, and Tororo branches and continues to upgrade its look and feel so as to attract and retain its customers.

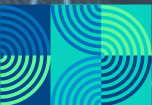
1

Kapchorwa Branch being officially launched by the Town Clerk of Kapchorwa Municipality Mr. Fenard Mukuru Katunda, Dr. Evelyn Kigozi Kahiigi the Board Chairperson and the Bishop of Kapchorwa.

2

3

1. Kapchorwa New Branch Launch | 2. Tororo New Branch Launch | 3. Kabarole New Branch Launch



FINANCIAL STATEMENTS

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DIRECTORS

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

Dr. Evelyn Kigozi Kahiigi*	Chairperson
Ms. Annet Nakawunde*	Managing Director
Ms. Annette Kiggundu Nansubuga*	Executive Director
Ms. Grace Namulinda Aliakai*	Non-Executive Director
Mr. Robert Kirunda*	Non-Executive Director
Ms. Mary Achan Oduka Ochan*	Non-Executive Director
Mr. Jean-Louis de Montesquiou****	Non-Executive Director
Mr. Tor G. Gull **	Non-Executive Director
Mr. Loic De Cannie're*****	Non-Executive Director
Ms. Lydia Koros***	Non-Executive Director
Mr. Jeremy Hajdenberg****	Non-Executive Director – Alternate to Mr. Jean-Louis de Montesquiou
Mr. David Ssenoga*	Non-Executive Director – Alternate to Mr. Tor G. Gull
Dr. Albert Richard Otete*	Non-Executive Director
Mr. Gervase Ndyanabo*	Non-Executive Director

Ugandan * Finish ** Kenyan *** French**** Belgian*****

COMPANY SECRETARY

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

AUDITOR

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

REGISTERED OFFICE

FINANCE TRUST BANK LIMITED
Twed Plaza, Plot 22B, Lumumba Avenue
P.O. Box 6972
Kampala, Uganda

BRANCHES

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

BANKERS

Bank of Uganda
Plot 17/19 Kampala Road
P.O. Box 7120
Kampala, Uganda

Centenary Bank
Plot 44-46 Kampala Road
P.O. Box 1892
Kampala, Uganda

Bank of Africa
Plot 45, Jinja Road
P.O. Box 2750
Kampala, Uganda

BANK'S SOLICITORS

Muwema & Co. Advocates & Solicitors
Plot 50, Windsor Crescent Road-Kololo
P. O. Box 6074
Kampala, Uganda

Nassuna & Co. Advocates
Plot 4, Jinja Road Social Security House
P. O. Box 8728
Kampala, Uganda

United Advocates
Wampewo Avenue, Kololo
P. O. Box 22593
Kampala, Uganda

Okalang Law Chambers
Plot 68, Gokhale Road
P. O. Box 1838
Kampala, Uganda

Kaddu & Partners
Plot 90/92 Kanjokya Street
P. O. Box 11034
Kampala, Uganda

Kentaro Mugerwa & Co Advocates
Plot 13, Buganda Road Mukwano Courts
P. O. Box 1176
Kampala, Uganda

Muganwa, Nanteza & Co. Advocates
Plot 1-3, Coral Crescent, Lower Kololo
P. O. Box 8543
Kampala, Uganda

BNM Advocates
Plot 23, Lumumba Avenue,Soliz House
P. O. Box 12694
Kampala, Uganda

Ligomarc Advocates
Plot 4, Jinja Rd 5th Floor-
Western Wing Social Security House
P.O. Box 8230
Kampala, Uganda

Alaka & Co. Advocates
Plot 10, Adumi Road
1st Floor OB Plaza
P.O. Box 781
Kampala, Uganda

Paul Tusubira & Co. Advocates
Plot 28, Liberation Road,
P.O. Box 324
Bushenyi, Uganda

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2022, which disclose the state of affairs of Finance Trust Bank Limited ("the Bank"). The financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act, 2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda.

PRINCIPAL ACTIVITIES

The Bank is engaged in the business of commercial banking and the provision of related services as licensed to do so under the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda.

RESULTS AND DIVIDEND

The profit for the year of Shs8,548million (2021: Shs9,155million) has been taken to retained earnings. The directors did not recommend payment of dividends for the year ended 31 December 2022 (2021: Shs1,831 million).

DIRECTORS

The current members of the board are shown on Page 11.

CORPORATE GOVERNANCE

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

BOARD OF DIRECTORS

The Bank has a broad-based board of directors. As at 31 December 2022, the Board of Directors consisted of 12 members. The board functions as a full board and through various committees constituted to oversee specific operational areas. The board has constituted five committees. These are the Assets and Liabilities Committee, Audit Committee, Risk Committee, Credit Committee and Compensation Committee. All board committees are constituted and chaired by non-executive directors. The membership on these committees at 31 December 2022 was as follows:

Committee	Chairperson	Membership	Meeting frequency
Assets and Liabilities	Mrs. Lydia Koros	4 Non-Executives 2 Executives	Quarterly
Audit	Dr. Albert Richard Otete	2 Independent non-Executives	
Risk	Mr. Tor G. Gull	3 Non-Executives 2 Executives	
Credit	Ms. Grace Namulinda Aliakai	4 Non-Executives 2 Executives	
Compensation	Mr. Jean-Louis de Montesquieu	4 non-executives	

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

Shareholder exit transaction

This transaction has not been concluded due to the fact that the hitherto identified investor was unable to fulfil some of the conditions set out in the Financial Institutions Act, 2004 (as amended 2016). Accordingly, I&M Burbidge Capital was appointed to support the timely conclusion of the exit transaction Capital raising process.

EXTERNAL AUDITOR

The Bank's auditor, KPMG Certified Public Accountants, will not seek re-appointment at the annual general meeting in accordance with Section 167(2) of the Companies Act, 2012 Laws of Uganda, having completed the fourth year of continuous service under section 65(1) of the Financial Institutions Act 2004, (as amended in 2016) Laws of Uganda.

APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements were approved and authorised for issue by the Board of Directors on 19th April 2023

By order of the Board

....

Company Secretary

Date: 26th April 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Bank's directors are responsible for the preparation and fair presentation of financial statements for Finance Trust Bank Uganda Limited ("the Bank") set out on pages 42 to 99, comprising the statement of financial position as at 31st December 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies, in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Companies Act, 2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda.

The directors are also responsible for such internal controls as the directors determine what is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The directors have assessed the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern for the next twelve months from the date of this statement. The directors have also assessed the minimum capital requirement revision for banks as laid out in the Financial Institutions (Revision of Minimum of Capital Requirements) Instrument, 2022 and a plan to comply with this regulation is laid out in Note6 (f).

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the IFRS Standards, Companies Act, 2012 Laws of Uganda, and Financial Institutions Act 2004 (as amended 2016) Laws of Uganda.

Approval of the financial statements

The financial statements of Finance Trust Bank Uganda Limited, were approved and authorised for issue by the Board of Directors on 19th April 2023.

………………………………	………………………………
Chairperson	**Director**

Date: 26th April 2023

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Finance Trust Bank Limited ("the Bank"), set out on pages 12 to 79 which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Companies Act, 2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended 2016).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Uganda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 6(f) to the financial statements which stipulates that As at 31st December 2022 the bank had paid up capital of Ushs 27.785 billion which was below the minimum capital requirement of Ushs 120 billion as at 31st December 2022. Bank of Uganda granted the Bank an extension up to 30th June 2023 to rectify the capital position upon review and approval of its capital restoration plan. Our opinion is not modified with respect to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Impairment of loans and advances to customers **Refer to Notes 3 ,4(d),(4(u) 6(a), 19(a) and 19 (b)** Impairment of loans and advances to customers is based on the Expected Credit Loss and is considered a key audit matter because the directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. As at 31st December 2022, the Bank's loans and advances to customers after charging Expected Credit Loss ("ECL") allowances of Shs 5.58 billion amounted to Shs 265.8 billion, representing 61% of total assets, with total Expected Credit Loss ("ECL") allowances of Shs 5.58 billion recognized.	Our audit procedures in this area included: • Performing end to end process walkthroughs to understand the ECL process. This included testing the design and implementation and the operating effectiveness of key controls around the used in the system applications and controls in the ECL processes. • Challenging the appropriateness of the assumptions used in modelling the probability of default and loss given default t by benchmarking them against the local economic variables against the economic variables considered determining the correlation between the non-performing assets and the changes to the economic environment in the determination of the forward looking adjustment to the probability of default and comparing the historical recovery period as well as recovered amounts to the information considered in modeling the loss given default.

Key audit matter	How the matter was addressed in the audit
The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's determination of Expected credit losses are: • Model estimations - inherently judgmental modelling is used to estimate ECL which involves determining probabilities of default ("PD") and loss given default ("LGD"). The PD models used in the portfolios are the key drivers of the Bank's ECL results and are therefore the most significant judgmental aspect of the Bank's ECL modelling approach. • Significant Increase in Credit Risk ('SICR') - the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12-month or lifetime provision is recorded. The quantitative judgements include the days in arrears which are 30 days for Small and Medium Enterprises (SME) lending or 7 days for micro loans while the qualitative judgements include financial performance ratios, information from external rating agencies, political or economic environments. • Economic scenarios - IFRS 9 Financial Instruments requires the Bank to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement was applied to determining the economic scenarios used which included import cover months as well as long-term external debt and the probability weightings applied to them.	• Obtaining on a sample basis the key inputs used in the ECL calculations i.e. macro-economic data, customer exposures, days in arrears, installment amounts and collateral values and agreeing themto source information and documentation such as customer loan agreements, arrears reports, published information on macro economic variables. • Reperforming the probability of default computations using the historical customer exposures, arrears information and comparing them compared the results with the probabilities of default in the ECL model. • Selecting a sample of facilities from the Bank's loan book and evaluating key aspects of the Bank's SICR considerations assessing the qualitative factors such as requests for restructure, change in the regulatory environment, financial performance of the client and quantitative factors such as days in arrears used by management in their evaluation of the classification of the financial instruments into stages 1 and 2. • Challenging key assumptions made by the Bank in determining forward looking information such as the macro-economic variables considered, weighting of the economic scenarios by involving our internal financial modelling specialist to assess the completeness of the macro-economic variables considered by comparing them with the local economic indicators that impact credit risk of customers, reasonableness of the overlays made to macro-economic variables to model the economic scenarios and probability weightings made to the economic scenarios and the correlation between the bank's credit risk parameters and the macro-economic variables. • Evaluating the adequacy of the financial statements' disclosures, including disclosures of key assumptions and judgements in accordance with IFRS 7 Financial Instruments: Disclosures.

Other information

The directors are responsible for the other information. The other information comprises information included in the Finance Trust Bank Limited Annual Report and Financial Statements for the year ended 31st December 2022 but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of 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 IFRS Standards, and in the manner required by the Companies Act, 2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended 2016) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The companies Act, 2012 Laws of Uganda

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

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

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

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

The Financial Institutions Act, 2014 (as amended 2016) Laws of Uganda

The Bank was not compliant with the minimum capital requirement of Ushs 120 billion as at 31st December 2022, as required by the financial institutions Act.

The engagement partner responsible for the audit resulting in this independent auditor`s report is CPA Stephen Ineget - P0401.

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

....
CPA Stephen Ineget

26th April 2023

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 Shs '000	2021 Shs '000
Interest income calculated using effective interest method	7	81,911,214	68,905,031
Interest expense	8	(21,929,775)	(17,576,008)
Net interest income		**59,981,439**	**51,329,023**
Fees and commission income	9	21,043,999	21,132,405
Other operating income	11	2,976,299	1,937,267
Net foreign exchange income	10	724,363	635,279
Total operating income		**84,726,100**	**75,033,974**
Impairment losses on financial assets	19 (b)	(7,694,754)	(4,604,769)
Personnel expenses	13	(35,091,472)	(31,582,346)
Depreciation & amortization	12 (a)	(6,579,905)	(6,838,793)
Operating expenses	12 (b)	(22,940,597)	(18,389,431)
Profit before income tax		**12,419,372**	**13,618,635**
Income tax expense	14	(3,871,139)	(4,462,885)
Profit for the year		**8,548,233**	**9,155,750**
Other comprehensive income		-	-
Total comprehensive income for the year		**8,548,233**	**9,155,750**
Earnings per share - basic and diluted (Shs per share)	33	**0.308**	**0.330**

The notes set out on pages 55 to 99 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2022

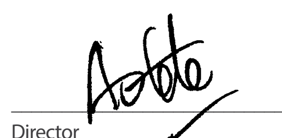
ASSETS	Notes	2022 Shs 000	2021 Shs 000
Cash and balances with Bank of Uganda	15	56,721,546	43,060,406
Deposits and placements with other Banks	16	64,328,776	49,670,352
Government securities	17	11,723,797	25,912,416
Net loans and advances to customers	19(a)	265,813,219	242,527,791
Other assets	18	9,177,620	6,394,501
Current income tax recoverable	14	112,109	-
Right of Use asset	32 (a)(i)	16,727,666	14,227,894
Property and equipment	20	14,191,733	9,071,221
Intangible assets	21	2,512,195	2,991,114
Deferred income tax asset	26	-	-
TOTAL ASSETS		**441,308,661**	**393,855,695**

STATEMENT OF EQUITY AND LIABILITIES

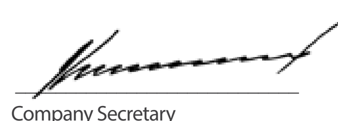
LIABILITIES	Notes	2022 Shs 000	2021 Shs 000
Customer deposits	22	276,821,049	183,432,709
Deposits and balances due to other banking institutions	23	12,921,942	69,465,145
Borrowings	24	49,418,623	38,064,230
Lease liability	32 (ii)	16,468,659	14,220,011
Current tax payable	14	-	571,872
Deferred tax liability	26	1,149,891	715,110
Other liabilities	25	16,591,002	26,166,206
TOTAL LIABILITIES		**373,371,166**	**332,635,283**
EQUITY			
Share capital	27	27,785,402	27,785,402
Regulatory credit risk reserve	19 (c)	5,432,637	5,119,221
Retained earnings	31	34,719,456	26,484,639
Proposed dividends	36	-	1,831,150
TOTAL EQUITY		**67,937,495**	**61,220,412**
TOTAL LIABILITIES AND EQUITY		**441,308,661**	**393,855,695**

The financial statements on pages 42 to 99 were approved for issue by the Board of Directors on 19th April 2023:

Chairperson, Board of Directors


Director

Managing Director


Company Secretary

The notes set out on pages 53 to 99 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

		Share capital	Regulatory reserve	Retained earnings	Proposed dividends	Fair Value Through Other Comprehensive Income	Total
		Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Year ended 31 December 2022	**Notes**						
At 1 January 2022		**27,785,402**	**5,119,221**	**26,484,639**	**1,831,150**	**-**	**61,220,412**
Total comprehensive income:							
Profit for the year		-	-	8,548,233	-	-	8,548,233
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		**-**	**-**	**8,548,233**	**-**	**-**	**8,548,233**
Transactions with owners:		**-**		**-**	**-**	**-**	**-**
Transfer of non-paid Dividends				-	-	-	-
Transfer to regulatory reserve		-	313,416	(313,416)	-	-	-
Dividends paid					(1,831,150)		(1,831,150)
At 31 December 2022		**27,785,402**	**5,432,637**	**34,719,456**	**-**	**-**	**67,937,495**
Year ended 31 December 2021							
At 1 January 2021		**27,785,402**	**1,861,461**	**21,195,893**	**1,221,906**	**-**	**52,064,662**
Total comprehensive income:							
Profit for the year		**-**	**-**	**9,155,750**	**-**	**-**	**9,155,750**
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		**-**	**-**	**9,155,750**	**-**	**-**	**9,155,750**
Transactions with owners:							
Transfer of non-paid Dividends		-		1,221,906	(1,221,906)	-	-
Transfer to regulatory reserve		-	3,257,760	(3,257,760)	-	-	-
Transfer of dividends payable to other liabilities					-	-	-
Dividends proposed	36	-	-	(1,831,150)	1,831,150	-	-
At 31 December 2021		**27,785,402**	**5,119,221**	**26,484,639**	**1,831,150**	**-**	**61,220,412**

The accounting policies and notes on pages 53 to 99 form an integral part of these financial statements.

STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	2021
Cash flows from operating activities	**Notes**	**Shs 000**	**Shs 000**
Interest receipts		73,600,481	62,540,553
Interest payments on deposits		(13,628,861)	(12,702,714)
Interest paid on borrowings		(6,126,486)	(2,478,281)
Interest paid on leases		(1,721,935)	(1,466,718)
Net fee and commission receipts		28,885,705	26,455,200
Other income received		1,473,524	1,425,563
Recoveries from loans previously written off		2,057,769	1,026,624
Payments to employees and suppliers		(70,540,881)	(41,615,569)
Income tax paid		(4,120,339)	(3,229,730)
Net (disbursements)/receipts from loan customers		(29,663,414)	(39,357,802)
Receipts/(withdrawals) from customer deposits		92,969,201	(19,928,408)
Net funds (deposited with)/received from other banks		(56,543,203)	39,329,791
Funds received from/investments made in government securities		19,679,164	(15,476,070)
Placements made with other banks		(13,469,413)	(7,300,494)
Receipts for operating grants		495,580	218,436
Net cash generated from/(used in) operating activities		**23,346,892**	**(12,559,619)**
Cash flows from investing activities			
Purchase of property and equipment		(8,291,831)	(4,871,745)
Purchase of intangible assets		(31,636)	(1,045,183)
Proceeds from sale of property and equipment		257,674	81,417
Net cash used in investing activities		**(8,065,793)**	**(5,835,511)**
Cash flows from financing activities			
Receipts for borrowings		16,915,660	28,416,000
Repayments for borrowings		(4,514,846)	(5,412,565)
Lease payments		(3,480,252)	(2,101,328)
Dividends paid		(1,831,150)	-
Net cash utilized from financing activities		**7,089,412**	**20,902,107**
Net increase in cash and cash equivalents		**22,370,511**	**2,506,977**
Cash and cash equivalents at start of year		46,977,826	44,470,849
Cash and cash equivalents at end of year	29	**69,348,337**	**46,977,826**

The accounting policies and notes on pages 53 to 99 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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

Twed Plaza, Plot 22B, Lumumba Avenue
P O Box 6972
Kampala, Uganda

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

2 Basis of Accounting and Measurement
The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRSs). They were authorised for issue by the Bank's Board of Directors on _____________2023. Details of the Bank's accounting policies are included in Note 4 and 5.

The financial statements are presented in Uganda Shillings (Shs), which is the Bank's functional currency. All amounts have been rounded to the nearest thousands (Shs000), unless otherwise indicated.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies included in Note 4.

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

3 Use of judgements and estimates
In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of the bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements
Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

Note 4: establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

Assumptions and estimation of uncertainties
Information about assumptions and estimation of uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2022 is included in the following notes.

Note 4(d): impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

4 Summary of Significant accounting policies
(a) Interest income and expense
Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' respectively in the Statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a Bank of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for measuring the impairment loss.

(b) Foreign currency translation
Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Uganda Shillings ("Shs") which is the Bank's functional currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income. Translation differences on non-monetary financial assets and liabilities, such as

equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

(c) Fees and commission income

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

(d) Financial assets and liabilities

(i) Classification and measurement of financial instruments

The Bank classifies its financial assets into three principal classification categories based on the cash flow characteristics of the asset and the business model assessment:

- Amortised cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit and Loss (FVTPL).

Amortised cost

A Financial Asset is classified and measured at amortised cost (net of any write down for impairment) unless the asset is designated at FVTPL under the fair value option only if it meets the following two tests:

- Business model test: The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realise its fair value changes).
- Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank recognises cash, balances with Bank of Uganda, deposits, and balances due from commercial banks in Uganda, loans and advances to customers, investment securities, borrowings, lease liabilities, other liabilities and other assets at amortised cost.

Fair Value through Other Comprehensive Income (FVOCI)

A financial asset which is a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

As at 31st December 2022, the Bank did not have financial assets measured at FVOCI

Fair Value through Profit or Loss (FVTPL)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTP. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost, at FVOCI as at FVTPL if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

As at 31st December 2022, the Bank did not have any financial instruments classified at FVTPL.

Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI)

To determine whether a financial asset should be classified as measured at amortised cost or FVOCI, an entity assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion. A financial asset that does not meet the SPPI criterion is always measured at FVTPL, unless it is an equity instrument for which an entity may apply the OCI election.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. The definition of principal reflects the economics of the financial asset from the perspective of the current holder. This means that an entity assesses the asset's contractual cash flow characteristics by comparing the contractual cash flows to the amount that it actually invested.

'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considered the contractual terms of its financial assets. The Bank, through the Credit, Finance and Treasury departments will from time to time review the contractual terms of existing instruments and also review contractual terms of new products the Bank develops or invests in going forward. This includes assessing whether the financial asset contained a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank has considered;

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- Features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Contractual features that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, give rise to contractual cash flows that do not meet the SPPI criterion.

Interest rates on loans made by the Bank are based on the prevailing interest rate which currently are referenced to the Central Bank Rate. The prevailing rates are generally based on a Central Bank rate and also include a discretionary spread (Margin). In these cases, the Bank will assess whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay the loans without significant penalties;
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

Some of the Bank's loans may contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Business Model assessment

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how Banks of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

- Held to Collect: The objective in this business model is to manage the financial assets by holding them and collecting the underlying contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling the assets). In addition to this, the business considers the frequency, volume and timing of sales in prior periods, the reasons for such sales and the expectations about future sales activity.
- Held to Collect and Sell: The Bank may also hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the entity's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model.
- Held for Trading: A portfolio of financial assets that meets the definition of held for trading is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets
- Fair Value Option: The portfolio of financial assets meets the definition of FVTPL if:
    (i). The financial instruments are acquired or incurred principally for the purpose of selling or repurchasing in the near term (this includes actual sale as well as synthetically selling off the risk through a derivative);
    (ii). The instruments on initial recognition are part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit taking.

Financial liabilities

The Bank classifies all financial liabilities as subsequently measured at amortised cost. Deposits from customers and other liabilities are also classified at amortised cost.

Reclassification

The Bank only reclassifies financial assets when management changes the business model for managing the financial assets. In that instance all affected financial assets are reclassified. Such changes are expected to be very infrequent, and are determined by the Bank's Senior Management as a result of external or internal changes.

Modification and de-recognition

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy which applies to both micro and Small and Medium Enterprise (SME) lending.

When the contractual terms of a financial asset are modified and the modification does not result in de-recognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in de-recognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk. Improved repayment behaviour is inferred when the customer meets their loan obligations over a 12 months' observation period from date of modification.

Where a modification does not lead to de-recognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

When a financial asset is modified the Bank assesses whether this modification results in de-recognition. The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability. However, when the modification of a financial instrument not measured at FVTPL does not result in de-recognition, the Bank will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities in lending and repurchase transactions.

Write-off

The Bank writes off financial assets, in whole or part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- Ceasing enforcement activity
- Where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Interest income recognition

According to IFRS 9 paragraph 5.4.1 interest revenue shall be calculated by using the effective interest method. This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

a) Purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

b) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

According to IFRS 9 paragraph 5.4.2 an entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortised cost of a financial asset in accordance with paragraph 5.4.1(b) (see (b), shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 5.4.1(b) were applied (such as an improvement in the borrower's credit rating). In the context of the FIA regulations, credit impaired accounts would refer to the substandard, doubtful and loss risk classifications.

Assets that are credit-impaired on initial recognition

According to IFRS 9 (7A.8.340) Purchased or Originated Credit Impaired (POCI) assets are assets that are credit-impaired on initial recognition. An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract e.g. a default or past-due event;
- A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event that caused the asset to be credit-impaired. Instead, the combined effect of several events may cause financial assets to become credit impaired.

Measurement on initial recognition

On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime ECLs are incorporated into the calculation of the effective interest rate.

Subsequent measurement

The ECLs for POCI assets are always measured at an amount equal to lifetime ECLs. However, the amount recognised as a loss allowance for these assets is not the total amount of lifetime ECLs, but instead the changes in lifetime ECLs since initial recognition of the asset. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if the favourable changes are more than the amount, if any, previously recognised in profit or loss as impairment losses.

(ii) Impairment – financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model applies to the following financial instruments that are not measured at FVPL:

- financial assets that are debt instruments: This applies to the Bank's loans and advances to customers, Investment in Government securities measured FVOCI, balances due from other Banks, balances due from Bank companies and other assets;
- Lease and trade receivables – this applies to the Bank's finance lease and trade receivables; and
- Loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets): This applies to the Bank's off balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

No impairment loss is recognised on equity investments and financial assets measured at FVPL

The Bank recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Bank will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank will consider a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and
- other financial instruments (other than trade and lease receivables) for which credit risk has not increased significantly since initial recognition.
- Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs.

The impairment requirements of IFRS 9 are complex and require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset.

For purposes of IFRS 9 there will be no difference between credit impaired and non-performing financial loans as stipulated in the FIA.

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).
ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, an entity needs to follow one of the approaches below:

- The general approach
- The simplified approach

The General Approach

Under the general approach, at each reporting date, an entity recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss. Essentially, an entity (and the Bank has complied with this requirement) must make the following assessment at each reporting date:

Stage 1: For credit exposures where there have not been significant increases in credit risk since initial recognition, an entity is required to provide for 12-month ECLs i.e. the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date (12-month ECL as per formula below).

ECL12m = PD12m x LGD12m x EAD12m

Stage 2: For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime (LT) ECLs, i.e., ECLs that result from all possible default events over the expected life of a financial instrument (ECL LT as per formula below).

ECL LT = LT∑T=1 PDt x LGDt x EADt

Stage 3: For credit exposures that are credit impaired and in default. Similar to stage 2 assets a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate. Otherwise the same ECL computation approach is apply just as Stage 2.

Definition of default

The definition of default, as used by the Bank, is that an obligor is in default where the following have occurred:

- When the obligor is past due more than 89 days for the portfolios that are classed as small and medium enterprise facilities & 29 days for the portfolio segment that is categorized as micro; and
- When the Bank considers that the obligor is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if held), collecting against a guarantee or other form of support, or filing a claim against an insurer.

The definition used is consistent with the definition of default used in the Bank's internal credit risk management. It has also been used consistently across all components of the Expected Credit Loss (ECL) model. The definition used considers both arrears count and qualitative criteria.

The ECL model used by the Bank assigns stages to facilities based on the level of credit deterioration and arrears status.

Significant increase in credit risk

A facility is categorised in Stage 1 if it is less than 30 days past due for the SME portfolio or 7 days past due for the micro loans portfolio or if it has not experienced a significant increase in credit risk. Credit impaired facilities are categorised in stage 3 with stage 2 consisting of facilities that have experienced a significant increase in credit risk.

The assessment of whether there has been a significant increase in credit risk is done by considering the change in the risk of default since origination. The increase in credit risk is deemed significant if a facility is more than 30 days past due for the SME portfolio or more than 7 days for the micro loans portfolio.

The Bank qualitatively determines default, when the Bank considers that the obligor is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if held), collecting against a guarantee or other form of support, or filing a claim against an insurer. The bank considers financial information such as profit margins, leverage ratios, changes in the political or regulatory environment, external information from credit rating/monitoring agencies, requests for restructures etc.

The assessment of whether credit risk has increased (or decreased) significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument rather than by considering an increase in ECL. Where the credit risk of a financial asset has decreased significantly then the financial asset will be re-categorised to stage 1.

However, for migration from Stage 3 to Stage 2, obligors are required to have paid three consecutive monthly instalments. Migration from Stage 2 to Stage 1 is subject to monitoring of the loan's monthly performance for a period of 90 days and occurs after two consecutive monthly repayments. Migration from Stage 3 to Stage 1 is none permissible.

Probability of default (PD)

Forward-looking information has also been incorporated in the PD by including macroeconomic components in PD estimates using regression analysis.

The bank has quantitatively embedded the change in the economic environment into its Expected Credit Loss computations in a variety of ways, including but not limited to:

- Recalibrating its macroeconomic analysis and the weighting for each scenario in line with the downward impact on the Ugandan economy while taking into account the economic recovery that is expected going forward. The bank refreshed its Forward-Looking analysis to adopt recent macroeconomic data and based on expert judgement, reduced its weighting for the downside scenario while scaling up the weighting for the base and upside scenarios respectively. This is informed by the positive sentiment reverberating across the entire industry as the pandemic is getting under control and vaccination efforts scaling up across the country.
- Assessing the recoverability from the various security classes in line with the depressed market prices and extended times to realization. The bank's management maintains a minimum Loss Given Default floor, which is meant to cushion the bank from potentially inflated asset values and depressed actual property prices. The bank also reviewed the time to realize different collateral types in line with the current market experience.
- Applying a quantitative staging criterion to manage the upgrading of customers from Stage 3 to Stage 2 and finally Stage 1. The bank recognizes the importance of reliably assessing the curing process for defaulted accounts and observing customers for a reliable period before upgrading their stage especially with the exhaustion of moratorium periods for restructured loans. This has helped to minimize variability in ECL outputs as customers migrate across the various stages.

The Bank defines three possible economic scenarios: a base case, which is the likely scenario, established internally based on reliable referenced forecasts (usually the International Monetary Fund – IMF, Bank of Uganda – BOU, the Uganda Bureau of Statistics – UBOS & Fitch Solutions Data), and two less likely scenarios, one upside (Best case) and one downside (Worst case) scenario.

Scenarios	Weights	
	Original scenario	Further Downside scenario
Base	48%	10%
Upside	26%	10%
Downside	26%	80%

For Stress Testing & simulation purpose, the applicable weights for each of the scenarios is varied from the original scenario and impact to the bank's ECL provision assessed in a further downside scenario that has a higher downside weighting.

A further downward scenario results in a 13.13% overall increase in total ECLs as illustrated below:

Shs 000	Original scenario	Further Downside scenario Shs 000
Stage 1	2,278,703	2,577,896
Stage 2	314,866	356,207
Stage 3	3,173,790	3,590,508
Total	**5,767,359**	**6,524,611**

The table below lists the macroeconomic factors considered in the internally developed FLI macroeconomic model over a five-year forecast period. The assumptions represent the absolute values for the country's import cover (in months) as well as Long-term external debt stock (USD), which were found to be the statistically significant factors in predicting changes to the bank's default rate. Import cover is the ratio of total reserves (excluding gold) divided by the value of imports of goods and services converted into months (divided by 12). This shows the number of months of imports covered by the existing reserve holdings. Long-term external debt stock refers to public, publicly guaranteed and private non-guaranteed debt lent from foreign lenders to domestic residents. Debt maturity is normally longer than a year. From a correlation analysis with the bank's historical NPLs, the 2 factors had relatively higher correlation to the NPL directional trend.

At 31 December 2022	Import cover months	Long-term external debt stock, USD
5-year Average	4.40	15,988,200
Peak*	4.90	21,167,000

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

Bank's internal ratings scale:

For purposes of collective assessment of ECL, the Bank bands its Financial assets into 2 broad categories of Micro and SME. The SME portfolio includes commercial (Shs5m and above) & consumer facilities advanced in amounts while the micro loan portfolio includes all loans below Shs5m (excluding consumer loans).

Bank's rating	Days past due		
	Micro Loans	SME Loans	Stage allocation
Normal	0-7	0-29	1
Watch	8-29	30-89	2
Substandard	30-59	90-179	3
Doubtful	60-89	180 - 364	3
Loss	Over 89	Over 364 considered uncollectible	3

Expected credit losses (ECL) by segment as at 31 December 2022:

	Stage 1 - 12 months ECL (Shs '000)	Stage 2 – Lifetime ECL (Shs '000)	Stage 3 – Lifetime ECL (Shs '000)	Total (Shs '000)
SME	110,139,795	7,912,444	9,767,050	127,819,289
Micro	127,749,648	6,977,555	8,848,217	143,575,420
Gross Carrying amount	**237,889,443**	**14,889,999**	**18,615,267**	**271,394,709**
Loss allowance	(2,092,834)	(314,866)	(3,173,790)	(5,581,490)
Net carrying amount	**235,796,609**	**14,575,133**	**15,441,477**	**265,813,219**

Expected credit losses (ECL) by segment as at 31 December 2021:

	Stage 1 - 12 months ECL (Shs '000)	Stage 2 – Lifetime ECL (Shs '000)	Stage 3 – Lifetime ECL (Shs '000)	Total (Shs '000)
SME	187,956,302	4,575,635	20,670,181	213,202,118
Micro	29,875,645	1,738,180	3,373,565	34,987,390
Gross Carrying amount	**217,831,947**	**6,313,815**	**24,043,746**	**248,189,508**
Loss allowance	(1,809,938)	(64,983)	(3,786,796)	(5,661,717)
Net carrying amount	**216,022,009**	**6,248,832**	**20,256,950**	**242,527,791**

Loss Given Default (LGD)

The LGD model uses a two-step approach for estimating the loss given default under different macroeconomic scenarios. This entails calculating the loss likelihood and severity of write-offs by separating defaults that were eventually written-off and those that were not. An estimate of the LGD is determined for both the defaults that were written-off and those that were not. The final LGD is a probability-weighted average of the LGD for defaults that were written-off and the LGD for defaults that were not written-off.

Historical data collected from the Bank's internal database spanning the period 2014 to 2022 has been used to determine the LGD. The data has been segmented by product to capture the unique characteristics of each cohort.

For facilities that have professionally valued collateral, the LGD has been computed based on expected recovery from sale of the collateral. The methodology used to determine the LGD generally gives a best estimate of the loss given default in line with IFRS 9 requirements.

Exposure at Default (EAD)

The EAD constitutes the total exposure amount and includes on-balance sheet and off balance sheet exposures. It is a combination of the facility's outstanding balance and unused commitments. For the unused commitments, the expected incremental drawdown for a facility is estimated by deriving a credit conversion factor. For facilities without unused exposures, the EAD is estimated considering the contractual rundown on the loans. This is performed using the loan contract features i.e. loan principal amount, contractual interest rate and contractual term.

In addition to the measurement of the impairment losses on loans and advances in accordance with IFRS9 as set out above, the Bank is required by the Financial Institutions Act to estimate losses on loans and advances as follows:

1) Specific provision for the loans and advances considered non performing (impaired) based on the criteria, and classification of such loans and advances established by the Financial Institutions Act, as follows:
    a) Substandard loans with arrears period from 90 to 179 days – 20%
    b) Doubtful loans and advances with arrears period from 180 to 364 days – 50%; and
    c) Loss with arrears period exceeding 364 days – 100% provision

2) General provision of 1% of credit facilities less provisions and suspended interest.

In the event that provisions computed in accordance with the Financial Institutions Act exceed provisions determined in accordance with IFRS, the excess is accounted for as an appropriation of retained earnings. Otherwise no further accounting entries are made

(iii) Fair value measurement

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets at the reporting date without any deduction for transaction costs.

Gains or losses on valuation of FVOCI investment securities are recognised in other comprehensive income.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

As at 31 December 2022, the Bank did not have any financial assets measured at fair value.

(e) Offsetting

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

(f) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral;

the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to customers or placements with other banks, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(g) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication that an asset may be impaired. If any such indication exists, then the asset's recoverable amount is estimated.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Bank of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used. Impairment losses are recognised in profit or loss in expense categories consistent with the function.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or the
Carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

(h) Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to 'operating expenses' during the period in which they are incurred.

Freehold land is not depreciated while leased buildings (including leasehold improvements) are depreciated on a straight line basis over the shorter of the estimated useful life and the remaining lease term

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

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

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

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

The Bank assesses at each balance sheet date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are Banked at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

(j) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

Costs associated with maintaining computer software programmes are recognised as an expense as they are incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

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

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

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

(k) Income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled or the related deferred income tax asset is realised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available, against which the temporary differences can be utilised.

(l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank, treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank.

(m) Employee benefits

(i) Retirement benefit obligations

The Bank operates a defined Contribution Retirement Benefit scheme for all its permanent confirmed Senior Management employees. The Bank and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a retirement benefit plan that is not a defined contribution plan and defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

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

The Bank's contributions to the defined contribution schemes are charged to the Statement of comprehensive income in the year in which they fall due.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(n) Customer deposits

Deposits from customers are measured at amortised cost using the effective interest rate method.

(o) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Statement of comprehensive income over the period of the borrowings using the effective interest method.

(p) Share capital

Ordinary shares are classified as 'share capital' in equity and measured at the fair value of consideration receivable without subsequent re-measurement. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(q) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(r) Accounting for leases

(i) With the Bank as Lessee

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified measured and recognised in line with the requirements of IFRS 16 LEASES. Finance leases are capitalised at the lease's commencement at the present value of the minimum lease payments.

(ii) With the Bank as lessor

The Bank does not lease out any of its properties and equipment.

(s) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(t) Grants

Grants include assistance offered by government, government agencies and similar bodies whether local, national, or international in the form of transfers of resources in return for past, of future compliance with certain conditions relating to the operation of the Bank. Grants related to assets are those whose primary condition is that the Bank should purchase long-term assets.

Grants are recognised when there is reasonable assurance that the Bank will comply with the conditions attached to the grant and that the grant will be received.

Grants awarded towards the purchase of assets are netted off against the total purchase price in arriving at the carrying value of the asset. The grant is then recognised as income through profit or loss over the life of the asset by way of a reduction in the depreciation charge of the asset.

Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Deferred income tax asset/liability

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- Temporary differences related to investments in subsidiaries to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its Assets and liabilities.

The Bank recognizes deferred tax assets/ liabilities every when there exist qualifying deductible/taxable temporary differences respectively. Recognition of deferred tax assets is to the extent that the entity expects to recover the carrying amount in form of economic benefits flowing to the entity in future periods while that of deferred tax liabilities is hinged on the probability that economic benefits will flow from the entity in form of tax payments still in future periods.

In 2022, the Bank recognised deferred tax Asset of Shs336Million in respect of increase in deductible temporary differences. The deferred tax asset has been maintained in the balance sheet with an assumption that the bank will remain profitable against which the deductible temporary difference will be utilized.

(b) Measurement of expected credit loss allowance

The measurement of expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL such as:

- Determining the criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of ECL
- Establishing the number and relative weightings for forward-looking scenarios for each type of product / market and associated ECL

The expected credit loss allowance on loans and advances are disclosed in more detail in Note 19.

5 Standards and Amendments issued

A number of new standards and amendments to standards were effective for annual periods beginning after 1 January 2022 and earlier application is permitted. All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

(i) New standards adopted by the bank

New amendments or interpretation effective for annual periods beginning on or after 1 January 2022 are summarized below:

New amendments or interpretation	Effective date
• Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
• IFRS 1, IFRS 9, IFRS 16, and IAS 41 amendments Annual Improvements to IFRS Standards 2018–2022	1 January 2022
• Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
• Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022

Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 37)

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, issued by the International Accounting Standards Board, clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both:

- the incremental costs – e.g. direct labour and materials; and
- an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments will be recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives will not be restated. Earlier application is permitted.

The amendment to IAS 37 did not have a material effect on the financial statements as the Bank did not have any onerous contracts.

Annual Improvements to IFRS Standards 2018-2020

• IFRS 1 First-time Adoption of International Financial Reporting Standards	The amendment permits a subsidiary (as a first-time adopter of IFRS that applies IFRS later than its parent) that applies IFRS 1.D16(a) to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
• IFRS 9 Financial Instruments	The amendment clarifies that for the purpose of performing the "10 per cent test" for de-recognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
• IFRS 16 Leases	The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive.
• IAS 41 Agriculture	The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 Fair Value Measurement.

The adoption of the amendments did not have a material impact on the Bank as the bank was not a first time adopter of IFRS, the fees paid between the borrower and the lender in determining the 10% test for de-recognition of financial liabilities, the bank does not make any illustration payments for leases to the lessor and does not hold any biological assets.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. Proceeds from selling items before the related item of property, plant and equipment is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 Inventories should be applied in identifying and measuring these production costs.
Companies will therefore need to distinguish between:

- costs associated with producing and selling items before the item of property, plant and equipment is available for use; and
- costs associated with making the item of property, plant and equipment available for its intended use.

Making this allocation of costs may require significant estimation and judgement.

The amendments apply for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

The adoption of this amendment did not have a material impact on the financial statements of the Bank as the Bank did not generate any proceeds from its property, plant and equipment items prior to capitalisation.

Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendment has:

- updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- added to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- added to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendment is effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

The adoption of these standards did not have a material impact on the Bank as the Bank is not under a Group Structure.

(ii) Standards issued but not yet effective

At the date of authorization of the financial statements of Finance Trust Bank Limited Uganda for the year ended 31 December 2022. All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity). The following Standards and Interpretations were in issue but not yet effective:

New amendments or interpretation	Effective for annual periods beginning or after
• IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
• Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2024
• IAS 8 amendment-Definition of Accounting Estimates	1 January 2023
• IAS 1 and IFRS Practice Statement 2 amendment-Disclosure Initiative: Accounting Policies	1 January 2023
• IAS 12 amendment-Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28	Available for optional adoption/ effective date deferred indefinitely
• Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024
• Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024

IFRS 17 Insurance Contracts (and its related amendments)

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 entity is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements.

The standard is effective for annual periods beginning on or after 1st January 2023. Early adoption is permitted only if the entity applied IFRS 9.

The amendments are not expected to have a material impact on the Bank as the bank does not have insurance contracts.

Classification of liabilities as current or non-current (Amendments to IAS 1)

Under the existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the Board has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

There is limited guidance on how to determine whether a right has substance and the assessment may require management to exercise interpretive judgement.

The existing requirement to ignore management's intentions or expectations for settling a liability when determining its classification is unchanged.

The amendments are to be applied retrospectively from the effective date.

The amendments are not expected to have a material impact on the Bank as the bank presents its statement of financial position items in the order of liquidity.

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 recognized 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 recognized. The definition of a business is key to determining the extent of the gain to be recognized.

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

When a parent loses control of a subsidiary in a transaction with an associate or joint venture (JV), there is a conflict between the existing guidance on consolidation and equity accounting.

Under the consolidation standard, the parent recognizes the full gain on the loss of control. But under the standard on associates and JVs, the parent recognizes the gain only to the extent of unrelated investors' interests in the associate or JV.

In either case, the loss is recognized in full if the underlying assets are impaired.

In response to this conflict and the resulting diversity in practice, on 11 September 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The amendments are not expected to have a material impact on the Bank because it's not under a group structure.

Definition of accounting estimates (Amendments to IAS 8)

Distinguishing between accounting policies and accounting estimates is important because changes in accounting policies are generally applied retrospectively, while changes in accounting estimates are applied prospectively.

The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

— The definition of a change in accounting estimates is replaced with a definition of accounting estimates.
— Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
— Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
— The Board clarified that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
— A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods.

The effects of changes in inputs and/or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged.

The Bank is assessing the impact of the amendment on the financial statements.

Disclosure Initiative: Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

Making information in financial statements more relevant and less cluttered has been one of the key focus areas for the International Accounting Standards Board (the Board).

The Board has issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures. The key amendments to IAS 1 include:

— requiring companies to disclose their material accounting policies rather than their significant accounting policies;
— several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
— clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed;
— clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements;
— accounting policy information may be material because of its nature, even if the related amounts are immaterial;
— accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and

the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures. The amendments are consistent with the refined definition of material.

The Bank does not anticipate the amendments to IAS 1and IFRS Practice Statement 2 to have a significant impact on the financial statements.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendment to IAS 12)

The amendment clarifies that the initial recognition exemption does not apply to transactions that give rise to equal and offsetting temporary differences such as leases and decommissioning obligations. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The Bank is assessing the impact of the amendment to IAS 12 to the financial statements.

Lease liability in Sale and Lease back (Amendments to IFRS 16) effective 1 January 2024

Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments that arise in a sale and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered since 2019.

The Directors do not plan to apply the above standards until they become effective. The Directors do not anticipate for the amendment to have a significant impact on the financials as the Bank did not enter into any sale and lease back transactions.

Non-current Liabilities with Covenants (Amendments to IAS 1)

After reconsidering certain aspects of the 2020 amendments1, the IASB reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current.

Covenants with which the company must comply after the reporting date (i.e. future covenants) do not affect a liability's classification at that date. However, when non-current liabilities are subject to future covenants, companies will now need to disclose information to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

The directors do not anticipate the amendment to IAS 1 to have a significant impact on the Bank's financial statements as the bank did adopt the order of liquidity presentation in the statement of financial position.

6 Financial risk management

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate equilibrium between risk and return and minimise potential adverse effects on its financial performance.

The Treasury department under policies approved by the Board of Directors carries out financial Risk management. Through its treasury department, the Bank identifies, evaluates and hedges financial risks in close cooperation with other operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, and use of derivative and non-derivative financial instruments.

The carrying amounts for each class of financial instruments is included in the table below;

	2022 Ushs'000	2021 Ushs'000
Financial assets		
Measured at amortised cost		
Cash and balances with Bank of Uganda	56,721,546	43,060,406
Deposits and placements with other Banks	64,328,776	49,670,352
Government securities	11,723,797	25,912,416
Net loans and advances to customers	265,813,219	242,527,791
Other assets	6,910,927	4,670,122
	407,764,958	**365,841,087**

	2022 Ushs'000	2021 Ushs'000
Financial liabilities		
Measured at amortised cost:		
Customer deposits	276,821,049	183,432,709
Deposits and balances due to other banking institutions	12,921,942	69,465,145
Borrowings	49,418,623	38,064,230
Other financial liabilities	14,773,503	24,689,776
Lease liabilities	16,468,659	14,220,011
	370,403,776	**329,871,871**

(a) Credit risk

'Credit risk' is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's Loans and advances to customers. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

Credit risk is the most important risk for the Bank's business; management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised in the credit risk management team with in the Risk department. The Credit risk management team reports regularly to the Board of Directors.

(i) Credit risk measurement

Loans and advances (including commitments and guarantees)

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

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Probability of default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data. The Bank segments its clients into five rating classes in line with the provisions of the FIA, 2004, (as amended 2016).

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, customers are segmented into five rating classes as shown below and these remained unchanged even during Covid-19 pandemic period:

Bank's rating	Description of the grade
1	Standard and current
2	Watch
3	Substandard
4	Doubtful
5	Loss

(ii) Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent reviews. The Board of Directors approves limits on the level of credit risk by product, industry sector and by country regularly.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing lending limits where appropriate.

(iii) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over communal and/or business assets such as premises, inventory and accounts receivable' and
- Charges over financial instruments such as debt securities and equities.

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

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(iv) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets:

	2022 Shs 000	2021 Shs 000
Bank Balances with Bank of Uganda (Note 15)	30,971,728	22,864,538
Placements & deposits with other banks (Note 16)	64,328,776	49,670,352
Loans and advances to customers (Note 19 (a))	265,813,219	242,527,791
Government securities (Note 17(a))	11,723,797	25,912,416
Other assets (Note 18)	6,910,927	4,660,510
	379,784,447	**345,635,607**

Credit risk exposures relating to off-balance sheet items:

	2022 Shs 000	2021 Shs 000
Guarantee and performance bonds	4,740,117	4,922,121
Commitments to lend	797,427	979,619
Total exposure	**385,285,991**	**351,537,347**

The above table represents a worst-case scenario of credit risk exposure to the Bank at 31 December 2022, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 68.6% of the total maximum exposure is derived from loans and advances to customers and 3.0% represents investments in debt securities.

All loans and advances to customers other than to salaried individuals are secured by collateral in the form of charges over land and buildings and/or plant and machinery and other assets, corporate and personal guarantees or assignment of contract proceeds.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans;
- 88% of the loans and advances portfolio are neither past due nor impaired; and
- 3% of the loans and advances portfolio is past due but not impaired.
- 10% of the loans and advances portfolio is impaired.

Loans and advances

Financial assets	2022 Shs 000	2021 Shs 000
Measured at amortised cost		
Cash and balances with Bank of Uganda	56,721,546	43,060,406
Deposits and placements with other Banks	64,328,776	49,670,352
Government securities	11,723,797	25,912,416
Net loans and advances to customers	265,813,219	242,527,791
Other assets	6,910,927	4,670,122
Net amount	407,764,958	365,841,087
	265,813,219	**242,527,791**

Impairment of Loans and advances

The credit quality of the portfolio of loans and advances was assessed in reference to the IFRS 9 staging criteria. The portfolio buckets at close of the year were as below:

Financial liabilities	2022 Shs 000	2021 Shs 000
Measured at amortised cost		
Stage 1	237,889,444	217,831,947
Stage 2	14,889,998	6,313,815
Stage 3	18,615,267	24,043,746
	271,394,709	**248,189,508**

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Loans and advances to customers at amortized cost

	2022 Shs 000				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Normal	237,889,444	7,435,876	811,758	-	246,137,078
Watch	-	7,454,122	1,059,001	-	8,513,123
Sub Standard	-	-	6,105,725	-	6,105,725
Doubtful	-	-	5,472,389	-	5,472,389
Loss	-	-	5,166,394	-	5,166,394
	237,889,444	**14,889,998**	**18,615,267**	**-**	**271,394,709**
Loss allowance	(2,092,834)	(314,866)	(3,173,790)	-	(5,581,490)
Carrying amount	**235,796,610**	**14,575,132**	**15,441,477**	**-**	**265,813,219**

	2021 Shs 000				
	Stage 1	Stage 2	Stage 3	POCI	Total
Normal	217,831,947	2,452,211	1,183,436	-	221,467,594
Watch	-	3,861,604	724,034	-	4,585,638
Sub standard	-	-	10,313,673	-	10,313,673
Doubtful	-	-	8,692,984	-	8,692,984
Loss	-	-	3,129,619	-	3,129,619
	217,831,947	**6,313,815**	**24,043,746**	**-**	**248,189,508**
Loss allowance	(1,809,938)	(64,983)	(3,786,796)	-	(5,661,717)
Carrying amount	**216,022,009**	**6,248,832**	**20,256,950**	**-**	**242,527,791**

Cash and Bank of Uganda Balances

	2022 Shs 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	56,800,499	-	-	56,800,499
Loss Allowance	(78,953)	-	-	(78,953)
Carrying amount	**56,721,546**	**-**	**-**	**56,721,546**

	2021 Shs 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	43,124,230	-	-	43,124,230
Loss Allowance	(63,824)	-	-	(63,824)
Carrying amount	**43,060,406**	**-**	**-**	**43,060,406**

Balances with Other Banks

	2022 Shs 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	64,418,317	-	-	64,418,317
Loss Allowance	(89,541)	-	-	(89,541)
Carrying amount	**64,328,776**	**-**	**-**	**64,328,776**

	2021 Shs 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	49,739,534	-	-	49,739,535
Loss Allowance	(69,182)	-	-	(69,182)
Carrying amount	**49,670,352**	**-**	**-**	**49,670,352**

Investment securities at amortized cost

	2022 Shs 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	11,741,172	-	-	11,741,172
Loss Allowance	(17,375)	-	-	(17,375)
Carrying amount	**11,723,797**	**-**	**-**	**11,723,797**

	2021 Shs 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	25,951,636	-	-	25,951,636
Loss Allowance	(39,220)	-	-	(39,220)
Carrying amount	**25,912,416**	**-**	**-**	**25,912,416**

Cash and cash equivalents

The Bank held cash and cash equivalents of Shs112biillion at 31 December 2022 (2021: Shs118.64billion). The cash and cash equivalents are held with central bank of Uganda and financial institution counterparties that are rated at least B based on Fitch ratings.

Concentration Risk

A concentration risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic sector or other conditions. The analyses of credit risk concentrations presented below are based on the economic sector in which they are engaged.

	Gross Loans & advances			
Sector	2022 Shs 000	(%)	2021 Shs 000	(%)
Agriculture	100,563,125	37%	90,625,961	36%
Manufacturing	7,066,821	3%	8,129,661	3%
Trade	37,213,118	14%	33,899,585	14%
Transport and Communication	4,285,898	2%	6,615,744	3%
Electricity and Water	1,040,546	0%	1,394,520	1%
Building, Mortgage, Construction and Real Estate	62,732,543	23%	57,457,850	23%
Business Services	12,274,274	4%	11,810,720	5%
Community, Social & Other Services	16,105,525	6%	17,997,971	7%
Personal Loans and Household Loans	30,112,859	11%	20,257,496	8%
	271,394,709	**100%**	**248,189,508**	**100%**

Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

	Note	Exposure (%) subject to Collateral Requirements		
		Portfolio Value	Collateral Value	Principal type of collateral held
		Shs 000	Shs 000	
Balances with Bank of Uganda	15	17.17%	17.17%	— Treasury Bill(5bn)
Business Loans	19	100%	100%	— Legal mortgage (Title)
Agriculture Loans	19	100%	100%	— Legal Mortgage (Title)
Consumer loans	19	51%	78%	— Legal Mortgage (Title)
Asset Financing	19	100%	100%	— Chattels/Log Books
Loans Others	19	-	-	— None
Other assets excluding prepayments		-	-	— None

Loans and advances to customers

The bank extends credit to its customers through five major products i.e. Business loans, Agricultural Loans, Asset financing, Consumer loans and mobile phone loans. The general creditworthiness of customer tends to be the most relevant indicator of credit quality of a loan extended. However, collateral provides additional security and the Bank generally requests that all borrowers provide it. The Bank may take collateral in the form of cash, Legal Mortgage, customary land Kibanja, Marketable chattels and guarantees.

Because of the Bank's focus on customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to its customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely by the branch management in collaboration with Bank recovery unit and external support sought for difficult cases.

For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 December 2022, the net carrying amount of credit-impaired loans and advances to customers amounted to Shs16.13billion (2021: Shs20.26billion) and the value of identifiable collateral (mainly mortgaged properties) held against those loans and advances amounted to Shs76.410billion (2021: Shs 113.998billion). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against it.

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 4.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for corporate exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product, repayment frequency, and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process, the MDI Act 2003 and FIA 2004.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if;

- Quantitative; the counterparty is past due for more than 30 days
- Qualitative; the account has been restructured for financial distress reasons
- The physical state of collateral has since deteriorated from the time of accessing the credit facility.
- The customer is declared bankruptcy

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review to take care of changes.

In response to the COVID-19 pandemic waves in the prior periods, the Bank continued to extend repayment holidays/Moratoriums as guided by Bank of Uganda to a few of its customers.

During the period of the repayment holiday, no further arrears are reported on customers' records although interest on the deferred payments continues to accrue.

At 31 December 2022 the restructured loans with repayment holidays granted in 2022 are analysed below:

	Restructured	Collateral
	Shs M	Shs M
Stage 1	11.90	100
Stage 2	--	-
Stage 3	-	-

Covid-19 repayment holiday loans amounted to Shs11.9Million with a collateral holding of Shs100Million.

Repossessed collateral

During 2022, the Bank did not re-possess any collateral held as security. The Bank's policy is to dispose of repossessed properties as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property not sold by year-end is classified in the balance sheet within "other assets".

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

A separate team in the Treasury department regularly reviews sources of liquidity. The purpose is to ensure that the Bank maintains a wide diversification by provider, product and term. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis. Details of net liquid assets to deposits from customers and other banking institutions at the reporting date and during the reporting period were as follows:

	2022	2021
At 31 December	46.45%	45.40%
Average for the Period	39.88%	45.16%
Maximum for the Period	46.45%	52.18%
Minimum for the Period	30.05%	37.01%

Liquidity management during the year

The bank's liquidity position remained stable throughout the period as revealed by the average position of 39.88%. Strong liquidity buffers that mostly stemmed from term borrowings to a tune of Shs16bn and term deposits of Shs94bn supported this position.

The table below presents the undiscounted cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date and from financial assets by expected maturity dates with the exception customer deposits that the based on the historical customer withdraw trends per customer type.

At 31 December 2022	Up to 1 month Shs 000	1-3 months Shs 000	3-12 months Shs 000	1-5 years Shs 000	Over 5 years Shs 000	Total Shs 000
Financial assets						
Cash and balances with Bank of Uganda	56,721,546	-	-	-	-	56,721,546
Placements & Deposits with other banks	12,152,675	35,053,605	17,122,496	-	-	64,328,776
Government securities	-	-	12,500,000	-	-	12,500,000
Loans and advances to customers	22,217,520	10,511,864	92,710,393	140,373,442	-	265,813,219
Other receivables	-	-	-	6,910,927	-	6,910, 927
Total financial assets	**91,091,741**	**45,565,469**	**122,332,889**	**147,284,369**	**-**	**406,274,468**
Financial liabilities						
Customer deposits	16,965,218	19,388,820	72,718,379	175,438,851	-	284,511,268
Deposits and balances due to banking institutions	804,340	3,729,354	8,980,103	-	-	13,513,797
Borrowed funds	-	7,257,628	12,000,998	39,083,763	369,888	58,712,277
Lease liability	469,956	580,537	3,911,151	19,863,011	3,949,964	28,774,619
Other liabilities	-	5,195,488	671,295	10,258,314	-	16,125,097
Total financial liabilities	**18,239,514**	**36,151,827**	**98,281,926**	**244,643,939**	**4,319,852**	**401,637,058**
Off Balance Sheet Items						
Guarantee and performance bonds	815,533	318,973	3,605,611	-	-	4,740,117
Commitments to lend	797,427	-	-	-	-	797,427
Total off balance sheet items	**1,612,960**	**318,973**	**3,605,611**	**-**	**-**	**5,537,544**
Net liquidity gap						
As at 31 December 2022	**71,239,267**	**9,094,669**	**20,445,352**	**(97,359,570)**	**(4,319,852)**	**(900,134)**

At 31 December 2021	Up to 1 month Shs 000	1-3 months Shs 000	3-12 months Shs 000	1-5 years Shs 000	Over 5 years Shs 000	Total Shs 000
Financial assets						
Cash and balances with Bank of Uganda	43,060,406	-	-	-	-	43,060,406
Placements & Deposits with other banks	25,120,729	12,266,216	12,283,407	-	-	49,670,352
Government securities	-	16,500,000	9,412,416	-	-	25,912,416
Loans and advances to customers	14,660,691	12,584,850	30,008,776	185,273,474	-	242,527,791
Other receivables	-	-	-	6,394,501	-	6,394,501
Total financial assets	**82,841,826**	**41,351,066**	**51,704,599**	**191,667,975**	**-**	**367,565,466**
Financial liabilities						
Customer deposits	10,897,416	12,454,190	46,703,211	113,377,892	-	183,432,709
Deposits and balances due to banking institutions	10,035,850	2,359,388	57,069,907	-	-	69,465,145
Borrowed funds	875,322	471,335	4,021,871	32,695,702	-	38,064,230
Lease liability	1,441,322	421,341	1,657,242	11,995,571	4,320,200	19,835,676
Other liabilities	-	10,873,803	-	15,292,403	-	26,166,206
Total financial liabilities	**23,249,910**	**26,580,057**	**109,452,231**	**173,361,568**	**4,320,200**	**336,963,966**
Off Balance Sheet Items						
Guarantee and performance bonds	452,686	1,397,570	528,698	1,312,207	1,230,960	4,922,121
Commitments to lend	979,619	-	-	-	-	979,619
Total off balance sheet items	**1,432,305**	**1,397,570**	**528,698**	**1,312,207**	**1,230,960**	**5,901,740**
Net liquidity gap						
As at 31 December 2021	**58,159,611**	**13,373,439**	**-58,276,330**	**16,994,200**	**-5,551,160**	**24,699,760**

(c) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates, foreign currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by the ALCO) and for the day-to-day implementation of those policies.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31st December 2022 and 2021. During the reporting period, the Bank only traded in USD and the financial instruments held as at 31 December 2022 and 2021 are included in the table below.

USD balances	2022 Shs 000	2021 Shs 000
At 31 December 2022 Assets		
Cash and BOU balances	2,694,684	4,496,186
Deposits and balances due from other banking institutions	1,231,910	877,634
Loans and advances	-	-
Other financial assets	-	-
Total assets	**3,926,594**	**5,373,820**
Liabilities		
Customer deposits	1,274,342	5,248,399
Deposits and balances due to banking institutions	-	-
Other financial liabilities	195	-
Total liabilities	**1,274,537**	**5,248,399**
Net on-balance sheet position	**2,652,057**	**125,421**
Net off-balance sheet position	**-**	**-**
Overall open position As at 31 December 2022	**2,652,057**	**125,421**

At 31 December 2022, if the functional currency had strengthened/weakened by 10% against the foreign currencies with all other variables held constant, the pre-tax profit/loss for the year would have been Shs265million (2021: Shs12million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities.

Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. Board ALCO is the monitoring body for compliance with theselimits and is assisted by Treasury in its day-to-day monitoring activities. These day-to-day activities include; monitoring changes in the Bank's interest rate exposures, which include the impact of the Bank's outstanding or forecast debt obligations and changes to exposures arising from interbank offered rates reform. Board ALCO sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly. Treasury is responsible for implementing these strategies by putting in place the individual hedge arrangements. Many of those hedge arrangements are designated in hedging relationships for accounting purposes. The Bank manages interest rate risk through gap analysis.

Gap Analysis

Under this, interest sensitive assets and liabilities are classified into various time bands according to their maturity in the case of fixed interest rates, and residual maturity towards next pricing date in the case of floating exchange rates. The size of the gap in a given time band is analysed to study the interest rate exposure and the possible effects on the Bank's earnings.

In order to evaluate the earnings exposure, interest Rate Sensitive Assets (RSA) in each time band are netted off against the interest Rate Sensitive Liabilities (RSL) to produce a repricing gap for that time band. A positive gap indicates that the Bank has more RSA than RSL. A positive of asset sensitive gap means that an increase in market interest rates could cause an increase in the net interest margin and vice versa. Conversely, a negative or liability sensitive gap implies that the Bank's net interest margin could decline as a result of increase in market rates and vice versa.

At 31 December 2022, if the interest rates on interest bearing assets and liabilities had been 100 basis points higher/lower with all other variables held constant, the pre-tax profit/loss for the year would have been Shs 5.2 billion (2021: Shs1.531 billion) higher/lower.

The table below summarises the Bank's exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Bank of Uganda	-	-	-	-	56,721,546	**56,721,546**
Placements & Deposits with other banks	7,114,185	35,053,605	17,122,496	-	5,038,490	**64,328,776**
Government securities	1,449,882	5,835,065	4,438,850	-	-	**11,723,797**
Loans and advances to customers	22,217,520	10,511,864	92,710,393	140,373,442	-	**265,813,219**
Other assets	-	-	-	-	9,177,620	**9,177,620**
Total assets	**30,781,587**	**51,400,534**	**114,271,739**	**140,373,442**	**70,937,656**	**407,764,958**
Liabilities						
Customer deposits	15,525,779	17,743,748	66,548,483	153,515,757	23,487,282	**276,821,049**
Deposits and balances due to other banking institutions	803,156	3,663,081	8,455,705	-	-	**12,921,942**
Borrowings	-	764,190	13,605,086	35,049,347	-	**49,418,623**
Lease liability	378,712	203,925	1,740,080	14,145,942	-	**16,468,659**
Other Liabilities	-	-	-	-	14,773,503	**14,773,503**
Total Equity and Liabilities	**16,707,647**	**22,374,944**	**90,349,354**	**202,711,046**	**38,260,785**	**370,403,776**
Interest re-pricing gap						
As at 31 December 2022	**14,073,940**	**29,025,590**	**23,922,385**	**(62,337,604)**		

At 31 December 2021	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Bank of Uganda	-	-	-	-	43,060,406	43,060,406
Placements & Deposits with other banks	21,203,309	12,266,216	12,283,406	-	3,917,420	49,670,352
Government securities	-	16,500,000	9,412,416	-	-	25,912,416
Loans and advances to customers	14,660,691	12,584,850	30,008,776	185,273,474	-	242,527,791
Other assets	-	-	-	-	6,394,501	6,394,501
Total assets	**35,864,000**	**41,351,066**	**51,704,599**	**185,273,474**	**53,372,327**	**367,565,465**
Liabilities						
Customer deposits	9,718,648	11,107,026	41,651,348	101,113,865	19,841,822	183,432,709
Deposits and balances due to other banking institutions	10,035,850	2,359,388	57,069,907	-	-	69,465,145
Borrowings	875,322	471,335	4,021,871	32,695,702	-	38,064,230
Lease liability	327,002	176,081	1,502,488	12,214,440	-	14,220,011
Other Liabilities	-	10,034,192	-	-	14,655,584	24,689,776
Total Equity and Liabilities	**20,956,822**	**24,148,022**	**104,245,614**	**146,024,007**	**34,497,406**	**329,871,871**
Interest re-pricing gap						
As at 31 December 2021	**14,907,178**	**17,203,044**	**(52,541,016)**	**39,249,467**		

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

(d) Fair values of financial assets and liabilities

The fair value of held-to-maturity investment securities and other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Bank at the balance sheet date.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. The Bank considers relevant and observable market prices in its valuations where possible.

In determining the fair values of the financial assets not measured at fair value, management has considered the following;

- For government securities, considering the bank has only treasury bills that mature in less than a year, the carrying amount approximates the fair value.
- For loans and advances, the bank which is in the business of lending has not changed its prime lending rate over the last three years as such in determining the fair value, management has only considered expected credit adjusted cash flows from the loans and advances at year end.
- For borrowings, the discount factors used to determine the fair values are within the current market rates as such the carrying amounts approximate the fair values.
- All other financial instruments have the carrying amounts approximating the fair values.

The fair value hierarchy of financial instruments not measured at fair value is included in the table below;

31 December 2022	Level 1	Level 2	Level 3	Total	Carrying amount
Assets	**Shs 000**	**Shs 000**	**Shs 000**	**Shs 000**	**Shs 000**
Cash and balances with Bank of Uganda	-	56,721,546	-	56,721,546	56,721,546
Balances & placements with other banks	-	64,328,776	-	64,328,776	64,328,776
Loans and advances to customers	-	268,220,919	-	268,220,919	271,394,709
Investment securities	-	11,723,797	-	11,723,797	11,723,797
Other assets	-	6,910,927	-	6,910,927	6,910,927
Total	**-**	**407,905,965**	**-**	**407,905,965**	**411,079,755**
Liabilities					
Customer deposits	-	276,821,049	-	276,821,049	276,821,049
Deposits and balances due to other banking institutions	-	12,921,942	-	12,921,942	12,921,942
Borrowings	-	49,418,623	-	49,418,623	49,418,623
Other financial liabilities	-	16,468,659	-	16,468,659	16,468,659
	-	**355,630,273**	**-**	**355,630,273**	**355,630,273**

31 December 2022	Level 1	Level 2	Level 3	Total	Carrying amount
Assets	**Shs 000**	**Shs 000**	**Shs 000**	**Shs 000**	**Shs 000**
Cash and balances with Bank of Uganda	-	43,060,406	-	43,060,406	43,060,406
Balances & placements with other banks	-	49,670,352	-	49,670,352	49,670,352
Loans and advances to customers	-	244,402,712	-	244,402,712	248,189,508
Investment securities	-	25,912,416	-	25,912,416	25,912,416
Other assets	-	4,670,122	-	4,670,122	4,670,122
Total	**-**	**367,716,008**	**-**	**367,716,008**	**371,502,804**
Liabilities					
Customer deposits	-	276,821,049	-	276,821,049	276,821,049
Deposits and balances due to other banking institutions	-	12,921,942	-	12,921,942	12,921,942
Borrowings	-	38,064,230	-	38,064,230	38,064,230
Other financial liabilities	-	14,220,011	-	14,220,011	14,220,011
	-	**342,027,232**	**-**	**342,027,232**	**342,027,232**

(e) Financial instruments by category

	2022	2021
31 December	**Shs 000**	**Shs 000**
Assets as per balance sheet – at amortised cost		
Cash and balances with Bank of Uganda	56,721,546	43,060,406
Balances & placements with other banks	64,328,776	49,670,352
Loans and advances to customers	265,813,219	242,527,791
Investment securities:	11,723,797	25,912,416
Total	**398,587,338**	**361,170,965**

	2022	2021
	Shs 000	Shs 000
Liabilities as per balance sheet – at amortised cost		
Customer deposits	276,821,049	183,432,709
Deposits from other banks	12,921,942	69,465,145
Other liabilities	18,327,155	26,166,206
Finance Leases	18,247,723	14,220,011
Total	**326,317,869**	**293,284,071**

(f) Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheet, are;

- To comply with the capital requirements as established by the Financial Institutions Act, 2004 (as amended 2016) and implementing the Financial Institutions (Capital Adequacy Requirements) Regulations, 2018;
- To safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank for supervisory purposes. The required information is filed with the Central Bank on a monthly basis. Capital adequacy compliance is assessed based on the Basel I computation, however, Bank of Uganda is currently monitoring compliance with the Basel II requirements which will form part of the proposed amendments to the Capital Adequacy Regulations.

Under the Financial Institutions Act, 2004, each Bank is required to: (a) hold the minimum level of regulatory capital of Shs120 billion as at December 31, 2022; (2021: Shs25bn) (b) maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 12.5%; and (c) maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Financial Institutions (Revision of Minimum Capital Requirements) Instrument, 2022 dated November 16, 2022 issued to Supervised Financial Institutions (SFIs) required all Tier 1 Financial Institutions to increase their capital positions to a minimum of Shs120bn by December 31, 2022 and then to Shs150bn by June 2024. The Bank was not in compliance with this requirement, however, a Capital restoration plan was submitted to the Central Bank as required by the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda and a no objection given. This plan is to be implemented within a 180-day period expiring on June 30, 2023. The key activities set out in the plan which include; conversion of retained earnings into ordinary share capital, rights issue to the sitting shareholders and on-boarding new shareholders will see the bank bolster its capital position to Shs150bn by June 30, 2024. However, in the unlikely event that the Bank does not raise the required Capital within the prescribed timelines, other available options shall be considered.

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

- Tier 1 capital (core capital) which upon applying the provisions of the Financial Institutions (Capital Adequacy Requirement) Regulation 2018, comprise Permanent Shareholders' Equity (issued and fully paid-up common shares and irredeemable, non-cumulative preference shares), share premium, prior years' retained profits, Net after-tax profits for current year-to-date and general reserves (permanent, unencumbered and able to absorb losses) less deductions of goodwill and other intangible assets, current year's losses, investments in unconsolidated financial subsidiaries, deficiencies in provisions for losses, prohibited loans to insiders and other deductions determined by the Financial Institutions Act 2004(amended 2018) and implementing the Financial Institutions (Capital Adequacy Requirements) Regulations, 2018.

- Tier 2 capital (supplementary capital) which upon applying the provisions of the Financial Institutions (Capital Adequacy Requirement) Regulation 2018, comprise revaluation reserves on fixed assets, unencumbered general provisions for losses, subordinated debt and Hybrid capital instruments.

The bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future growth of the Bank. The Bank monitors the adequacy of its capital using the above ratios of core capital and total capital as set out in the Financial Institutions Act 2004(Amended 2018). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets and off-balance-sheet commitments at a weighted amount to reflect their relative risk. The leverage ratio is determined by dividing the core capital of the Bank by the Total assets of the bank plus off-balance sheet items.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example, cash and balances with Bank of Uganda and Government of Uganda instruments have a zero risk weighting, which means that no capital is required to support the holding of these assets. Balances with other Banks have a 20% or 50% or 100% risk weighting balance because they carry some risk, while, property and equipment as well as Right of Use Asset carry 100% risk weighting, meaning that it must be supported by total capital equal to 12% of the carrying amount. Other asset categories have intermediate weightings.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December 2022 determined in accordance with the Financial Institutions Act:

	2022 Shs 000	2021 Shs 000
Core capital (Tier 1)		
Shareholder's equity	27,785,402	27,785,402
Retained earnings	34,719,456	26,484,639
Intangible assets	(2,512,195)	(2,991,114)
Deferred income tax asset	-	-
Unrealized foreign exchange gains	-	-
Total core capital	**59,992,663**	**51,278,927**
Supplementary capital (Tier 2)		
General provisions (FIA)	2,625,613	2,382,133
Tier 2 capital	2,625,613	2,382,133
Total capital (Tier 1 and Tier 2)	**62,618,276**	**53,661,060**

The risk weighted assets are measured by means of a hierarchy of four risk categories classified according to the nature of the asset and reflecting an estimate of the credit risk associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of the risk weighted assets of the Bank at 31 December 2022:

Balance sheet assets (net of provisions)	Balance sheet amount 2022 Shs 000	Balance sheet amount 2021 Shs 000	Risk weight %	Risk weighted amount 2022 Shs 000	Risk weighted amount 2021 Shs 000
Cash at Hand	25,749,818	20,195,868	0%	-	-
Balances with Bank of Uganda	30,971,728	22,864,538	0%	-	-
Balances with other Financial institutions in Uganda	5,119,665	3,848,238	20%	1,023,933	769,648
Placement with ABSA	15,030,859	-	20%	3,006,172	-
Placement with Equity	9,995,949	-	20%	1,999,190	
Placement with Stanbic	19,992,446	-	20%	3,998,489	
Placement with DTB	-	7,056,192	20%	-	1,411,238
Placement with HFB	-	4,001,479	20%	-	800,296
Placement with FINCA	5,065,278	6,281,781	20%	1,013,056	1,256,356
Placement with Pride Micro Finance	9,124,579	16,692,528	20%	1,824,916	3,338,506
Placement with Post Bank	-	11,790,134	20%	-	2,358,027
Government securities	11,723,797	25,912,416	0%	-	-
Loans and advances to customers	261,580,872	237,437,948	100%	261,580,872	237,437,948
Other assets	9,177,620	6,394,501	100%	9,177,619	6,394,501
Current income tax recoverable	112,109	-	100%	112,109	-
Property and equipment	14,191,733	9,071,221	100%	14,191,733	9,071,221
Right of Use	16,727,666	14,227,894	100%	16,727,666	14,227,894
Operating lease prepayments	-	-	100%	-	-
Intangible	-	-	0%	-	-
Deferred income tax asset	-	-	0%	-	-
On balance sheet assets	**434,564,119**	**385,774,738**		**314,655,755**	**277,065,635**
Market risk adjustment:					
Interest Rate Risk	-	-	100%	-	-
General Market Risk	-	575000	100%	-	575000
Foreign Exchange Risk	2,651,191	125,421	100%	2,651,191	125,421
Counter party risk adjustment	**-**	**-**	**-**	**-**	**-**
Off-balance sheet positions					
Guarantees	4,740,117	4,922,121	100%	4,740,117	4,922,121
Commitments to lend	797,427	979,619	50%	398,713	489,810
Off balance sheet items	**5,537,544**	**5,901,740**		**5,138,830**	**5,411,931**
Total risk-weighted assets	**442,752,854**	**392,376,899**		**322,445,776**	**283,177,987**

Loans and advances to customers

	2022 Shs '000	2021 Shs '000
Gross loans and overdrafts (Note 19(a)	271,394,709	248,189,508
Less specific provisions (FIA)	(8,574,383)	(8,571,030)
Less interest in suspense	(1,045,814)	(1,731,558)
Cash collateral	(193,640)	(448,972)
Net Loans and advances	**261,580,872**	**237,437,948**

Whereas the implementation of the capital restoration plan will result in a compliance with the new Capital requirement of Shs120bn, the bank still had a shortfall of on it's Core capital of Shs 60.01bn.

Capital ratios per Financial Institutions Act (FIA)

	2022 Shs '000	2021 Shs '000
Core capital	59,992,663	51,278,927
Total capital	62,618,276	53,661,060
FIA minimum ratio capital requirement		
Core capital (12.5%) (2021: 12.5%)	19.07%	18.11%
Total capital (14.5%) (2021:14.5%)	19.90%	18.95%

Tier 1 leverage ratio computation

	2022 Shs '000	2021 Shs '000
(a) Core capital	59,992,663	51,278,927
(b) Total Assets	441,308,661	393,855,695
(c) Off balance sheet items	5,537,544	5,901,740
Leverage ratio (6%) (a/b+c)	13.43%	12.83%

7 Interest income

	2022 Shs '000	2021 Shs '000
Loans and advances	68,914,605	56,579,350
Government securities	1,271,545	2,690,238
Short term placements	4,606,626	4,836,753
	74,792,776	**64,106,341**
Fees and commissions part of effective interest rate	7,118,438	4,798,690
Total income calculated using effective interest rate	**81,911,214**	**68,905,031**

Interest income relates income earned on financial assets held at amortised cost.

8 Interest expense

	2022 Shs '000	2021 Shs '000
Customer deposits	14,048,090	12,574,760
Lease interest charge	1,755,199	1,466,718
Borrowed funds	6,126,486	3,534,530
	21,929,775	**17,576,008**

Interest income relates income earned on financial liabilities held at amortised cost.

9 Fee and commission income

	2022 Shs '000	2021 Shs '000
Transactional fees and commission income	8,680,926	7,352,307
Credit related fees and commission income	12,363,073	13,780,098
	21,043,999	**21,132,405**

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies under IFRS 15
Credit related and transactional fees	The Bank provides banking services to its customers, including account management, provision of overdraft facilities, foreign currency transactions, and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees are charged to the customer's account when the transaction takes place. Periodic servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognized over time as the services are provided. Revenue related to transactions is recognized at the point in time when the transaction takes place.

10 Net foreign exchange income

	2022 Shs '000	2021 Shs '000
Realized foreign exchange gains	724,363	635,279
Unrealized foreign exchange gains	-	
	724,363	**635,279**

11 Other operating income

	2022 Shs '000	2021 Shs '000
Recovery of written off loans	2,057,769	1,026,623
Grant income	169,369	120,359
Other income	749,161	790,285
	2,976,299	**1,937,267**

Other income is mainly composed of gains on disposal of Property, plant and equipment and downward adjustment for prior year expense accruals.

12 Operating expenses

		2022 Shs '000	2021 Shs '000
a)	Depreciation of property and equipment (Note 20)	2,481,530	3,661,428
	Depreciation on Right of Use (Note 32(a(i))	3,479,973	2,579,633
	Amortization of Intangibles (Note 21)	618,402	597,732
		6,579,905	**6,838,793**
b)	Auditor's remuneration	323,660	432,294
	Legal fees	462,165	446,049
	Other professional fees	157,251	93,827
	Rent and rates	112,800	3,000
	Advertising and promotion	3,119,545	2,321,170
	Communication and technology	3,041,894	2,991,688
	Maintenance of Office Building	859,718	605,453
	Maintenance of Office Equipment	735,431	483,628
	Printing & Stationary	1,921,922	1,473,484
	Security Expenses - Office Guards	1,139,821	1,135,145
	Security Expenses - Cash in Transit	522,976	558,895
	Insurance Expenses	1,631,047	1,444,026
	Bank Charges	681,751	684,756
	Others	8,230,616	5,716,016
		22,940,597	**18,389,431**

Other Operating Expenses mainly relates to loan recovery costs, automobile maintenance costs, and agency banking costs.

13 Personnel expenses

	2022 Shs '000	2021 Shs '000
Salaries and wages	26,724,346	25,053,791
NSSF contributions	2,776,171	2,588,776
Defined contribution scheme contributions	1,323,378	792,620
Other staff costs	4,267,577	3,147,159
	35,091,472	**31,582,346**

14 Income tax expense

	2022 Shs '000	2021 Shs '000
Current income tax Expense	3,182,049	3,074,865
Withholding tax on government securities	254,309	538,048
Deferred income tax charge-current year (Note 26)	434,781	849,972
	3,871,139	**4,462,885**

	Effective Tax Rate	2022 Shs'000	Effective Tax Rate	2021 Shs'000
PROFIT BEFORE INCOME TAX		**12,419,372**		**13,618,635**
Tax calculated at the statutory income tax rate	30%	3,725,812	30%	4,085,591
Tax effect of:				
Tax effect of non-deductible items	2%	146,372	-2%	(215,282)
Prior year deferred income tax (over)/under provision	-1%	-	4%	592,576
Income tax charge	**31%**	**3,871,139**	**33%**	**4,462,885**

Current income tax recoverable was as follows:

	2022 Shs '000	2021 Shs '000
At 1 January	(571,872)	13,760
Adjustments for prior period items		(202,449)
Current income tax charge	(3,436,358)	(3,612,913)
Income tax paid	4,120,339	3,229,730
At 31 December	**112,109**	**(571,872)**

15 Cash and balances with Bank of Uganda

	2022 Shs '000	2021 Shs '000
Cash on hand	25,749,818	20,195,868
Balances with Bank of Uganda	31,050,681	22,928,362
IFRS 9 Impairment on Balances with Bank of Uganda	(78,953)	(63,824)
	56,721,546	**43,060,406**

16 Placements and deposits with other banks

	2022 Shs '000	2021 Shs '000
Balances with Banks in Uganda	5,126,791	3,917,420
Placements with other banking institutions - in Uganda	59,291,526	45,822,114
IFRS 9 Impairment	(89,541)	(69,182)
	64,328,776	**49,670,352**

17 Government securities

a) Treasury bills	2022 Shs '000	2021 Shs '000
Maturing within 90 days	7,500,000	-
Maturing later than 90 days	5,000,000	26,500,000
	12,500,000	**26,500,000**
Unearned interest	(758,828)	(548,364)
IFRS 9 impairment	(17,375)	(39,220)
	11,723,797	**25,912,416**
b) Treasury bonds		
Maturing within 90 days	-	-
Maturing after 90 days	-	-
IFRS 9 Impairment provision	-	-
Total government securities	**11,723,797**	**25,912,416**

18 Other assets

	2022 Shs '000	2021 Shs '000
Accounts receivable and prepayments	7,932,944	5,461,513
Other receivables	31,874	23,228
Consumables	1,212,802	909,760
	9,177,620	**6,394,501**

Accounts receivable and prepayments mainly relate to prepaid insurances, due from western union and money-gram money transfer services and due from agency banking services. The carrying amount of other assets approximates the fair value.

19 Loans and advances to customers

a) Analysis of loan advances to customers by category:

	2022 Shs '000	2021 Shs '000
Term loans	270,532,508	247,182,581
Overdrafts	1,648,973	1,333,311
Staff loan fair valuation adjustment	(786,772)	(326,384)
Total gross loans and advances	**271,394,709**	**248,189,508**
Less: Provision for impairment of loans and advances		
— Stage 1	(2,092,834)	(1,809,938)
— Stage 2	(314,866)	(64,983)
— Stage 3	(3,173,790)	(3,786,796)
Total loan provisions	**(5,581,490)**	**(5,661,717)**
Net loans and advances	**265,813,219**	**242,527,791**

The weighted average effective interest rate on loans and advances to customers was 27.7% (2021: 29.2%).

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

Year ended 31 December 2022	Stage1 Shs 000	Stage2 Shs 000	Stage3 Shs 000	Total Shs 000
At 1 January	**1,809,938**	**64,983**	**3,786,796**	**5,661,717**
Prior year adjustment	-	-	-	-
Provision for loan impairment	818,800	421,358	6,440,953	7,681,111
Loans written off during the year as uncollectible	(535,904)	(171,475)	(7,053,959)	(7,761,338)
At 31 December	**2,092,834**	**314,866**	**3,173,790**	**5,581,490**

Year ended 31 December 2021	Stage1 Shs 000	Stage2 Shs 000	Stage3 Shs 000	Total Shs 000
At 1 January	1,616,201	71,841	2,144,156	3,832,198
Prior year adjustment	-	-	-	-
Provision for loan impairment	847,447	171,655	3,536,652	4,555,754
Loans written off during the year as uncollectible	(653,710)	(178,513)	(1,894,012)	(2,726,235)
At 31 December	**1,809,938**	**64,983**	**3,786,796**	**5,661,717**

Movements in provisions for impairment on Investments and balances due from other Banks were as follows:

Year ended 31 December 2022	Shs 000
At 1 January 2022	
Impairment charge on cash & balances with Bank of Uganda (note 15)	78,953
Impairment charge on Bank balances (note 16)	89,541
Impairment charge on investment securities (note 17(a))	17,375
At 31 December 2022	**185,869**

Year ended 31 December 2021	Shs 000
At 1 January 2021	
Impairment adjustment on balances with bank of Uganda (note 15)	63,824
Impairment adjustment bank balances (note 16)	69,182
Impairment adjustment on investment securities (note 17)	39,220
At 31 December 2021	**172,226**

(b) Impairment losses charged to profit or loss

	2022 Shs 000	2021 Shs 000
Impairment charge on cash & balances with Bank of Uganda	15,129	5,952
Impairment charge on Bank balances	20,360	12,859
Impairment charge on investment securities	(21,846)	23,930
Impairment charge on other commitments	-	6,274
Impairment charge on Loans and advances	7,681,111	4,555,754
	7,694,754	**4,604,769**

(c) Regulatory Credit Risk Reserve

Analysis as required under the Financial Institutions Act (FIA)

Total provision as per IFRS	2022 Shs 000	2021 Shs 000
Stage 1: Loans & Advances	2,092,834	1,809,938
Stage 1: Cash and balances with Bank of Uganda	78,953	63,824
Stage 1: Placements & Deposits with other banks	89,541	69,182
Stage 1: Government Securities	17,375	39,220
Stage 2: Loans & Advances	314,866	64,983
Stage 3: Loans & Advances	3,173,790	3,786,796
Total	**5,767,359**	**5,833,943**
Total provisions as required under the FIA		
Specific provisions	8,574,383	8,571,030
General provisions	2,625,613	2,382,133
	11,199,996	**10,953,163**
Regulatory credit risk reserve		
At 1 January	5,119,221	1,861,461
Transfer from retained earnings	313,416	3,257,760
At 31 December	**5,432,637**	**5,119,221**

20 Property and equipment

	Buildings	Motor vehicles/ Cycles	Computer Hardware	Fixtures, fittings and equipment	Work in progress	Total
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Year Ended 31 December 2022						
Opening net book amount	**538,298**	**2,434,603**	**1,159,205**	**4,406,413**	**532,702**	**9,071,221**
Asset Reconciliation Adjustment			24,432	149,362	-	173,794
Additions	-	1,145,400	735,489	2,046,255	3,796,179	7,723,323
Transfers from WIP		-		2,082,581	(2,190,428)	(107,847)
Depreciation charge	(8,228)	(811,904)	(487,677)	(1,173,721)	-	(2,481,530)
Disposals	-	(527,215)	(241,674)	(182,336)	-	(951,225)
Depreciation on Disposals	-	441,405	194,358	128,234	-	763,997
Closing net book amount	**530,070**	**2,682,289**	**1,384,133**	**7,456,788**	**2,138,453**	**14,191,733**
Cost	603,734	5,306,583	6,973,211	18,710,649	2,138,453	33,732,630
Accumulated depreciation	(73,664)	(2,624,294)	(5,589,078)	(11,253,861)	-	(19,540,897)
Net book amount	**530,070**	**2,682,289**	**1,384,133**	**7,456,788**	**2,138,456**	**14,191,733**
Year Ended 31 December 2021						
Opening net book amount	**546,526**	**1,038,453**	**1,303,786**	**4,736,076**	**701,202**	**8,326,043**
Asset reconciliation adjustment				-	-	-
Additions	-	1,884,717	680,684	1,856,618	449,726	4,871,745
Transfers from WIP		-		251,307	(481,424)	(230,117)
Write Offs	(8,228)	(449,379)	(822,886)	(2,380,935)	-	(3,661,428)
Depreciation charge	-	(208,093)	(75,931)	(383,843)	(136,802)	(804,669)
Disposals	-	168,905	73,552	327,190	-	569,647
Closing net book amount	**538,298**	**2,434,603**	**1,159,205**	**4,406,413**	**532,702**	**9,071,221**
Cost	603,734	4,688,399	6,479,396	14,764,151	532,702	27,068,382
Accumulated depreciation	(65,436)	(2,253,796)	(5,320,191)	(10,357,738)	-	(17,997,161)
Net book amount	**538,298**	**2,434,603**	**1,159,205**	**4,406,413**	**532,702**	**9,071,221**

21 Intangible assets

	2022 Shs 000	2021 Shs 000
Net book amount at 1 January	**2,991,114**	**2,313,547**
Additions: Computer Software	31,636	1,045,183
Transfer from property and equipment	107,847	230,116
Amortization	(618,402)	(597,732)
Net book amount at 31 December	**2,512,195**	**2,991,114**
Cost	**8,646,808**	**8,507,324**
Accumulated depreciation	(6,134,613)	(5,516,210)
Net book amount	**2,512,195**	**2,991,114**

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

22 Customer deposits

	2022 Shs 000	2021 Shs 000
Current and demand deposits	23,487,282	19,841,822
Savings accounts	172,033,152	138,983,946
Fixed deposit accounts	81,300,615	24,606,941
	276,821,049	**183,432,709**

The weighted average effective interest rate on customer deposits was 2.78% (2021: 2.35%).

23 Deposits and balances due to other banking institutions

	2022 Shs 000	2021 Shs 000
Term deposits	12,921,942	69,465,145
	12,921,942	**69,465,145**

The deposits with other banking institutions are interest bearing. The weighted average effective interest rate on deposits and balances due to other banking institutions was 12.23% (2021: 8.80%).

24 Borrowings

	2022 Shs 000	2021 Shs 000
Uganda Development Bank	3,187,391	5,178,428
aBi Finance	10,947,348	7,687,849
Uganda Energy Credit Capitalisation Company	187,500	137,325
The Micro Finance Support Centre Limited	-	319,180
East Africa Development Bank	5,712,653	6,179,192
Symbiotics S.A.	29,383,731	18,562,256
	49,418,623	**38,064,230**

The terms and conditions relating to borrowings are tabulated below:

Details	Interest rate	Term (years)	Initial Amount Shs 000	Collateral
UDB Loan(2)	6%	5	5,000,000	Loan portfolio pledge & Cross Guarantee from UWT
aBi 2021 Ltd Loan	12.30%	5	4,000,000	Loan portfolio pledge
aBi 2020 Ltd Loan	12.28%	5	3,000,000	Loan portfolio pledge
aBi 2020 Ltd Loan	12.28%	5	1,000,000	Loan portfolio pledge
aBi 2020 Ltd Loan	11.90%	5	5,000,000	Loan portfolio pledge
UECCC(1) Loan	5%	2.5	250,000	Nil
EADB(1) Loan	12%	8	5,587,500	Loan portfolio pledge
EADB(2) Loan	12%	7	2,145,000	Loan portfolio pledge
EADB(3) Loan	12%	7	2,236,000	Loan portfolio pledge
EADB(3) Loan	9%	7	1,000,000	Loan portfolio pledge
Symbiotics S.A.	12%	4	18,030,000	Nil
Symbiotics S.A.	12%	3	10,665,660	Nil

25 Other liabilities

	2022 Shs 000	2021 Shs 000
Accounts payable	2,842,559	2,047,677
Accruals and other payables	1,643,607	2,408,640
Other taxes payable	1,463,671	1,125,908
Gratuity & pensions	1,447,708	899,289
Deferred income	4,409,664	4,598,576
Designated funds	384,559	15,895
Dividends payable	-	-
Capital grants	286,736	456,105
Suspended loan fees	474,740	2,412,587
NSSF payable	353,828	350,522
Agricultural Credit Facility Reimbursement	2,720,754	811,430
MMB from BOA*	-	10,034,192
Loan Insurance payable	229,865	267,031
Others	333,311	738,354
	16,591,002	**26,166,206**

Designated funds relate to grant funds advanced to the Bank to support implementation of defined projects. These funds are accounted for as ordinary liabilities until they are applied to the relevant revenue or capital expenditure projects at which point they are reclassified into either revenue grants that are offset from the total expenditure or capital grants that are still deferred under liabilities and released as the Bank enjoys the services of the funded assets.

Other liabilities mainly relate to CRB fees payable, mobile banking collections payable, unpresented drafts and title processing fees payable. The drop seen in suspended loan fees is due to adjustment for interest on stage 3 loans. The carrying amount of other liabilities approximates the fair values.

26 Deferred income tax liability/(asset)

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable tax rate of 30%. The net deferred tax asset comprises:

Year ended 31 December 2022	1 January 2022 Shs 000	Changed/ (credited) to P/L Shs 000	31 December 2022 Shs 000
Deferred income tax liability			
Accelerated tax depreciation	1,092,412	292,430	1,384,842
Capital grants	(136,832)	50,811	(86,021)
Provisions for loan impairment	818,939	21,392	840,331
Other provisions	(1,059,409)	70,148	(989,261)
Net deferred income tax liability	**715,110**	**434,781**	**1,149,891**

Year ended 31 December 2021	1 January 2021 Shs 000	Changed/ (credited) to P/L Shs 000	31 December 2021 Shs 000
Deferred income tax liabilities/(asset)			
Accelerated tax depreciation	1,289,577	(197,165)	1,092,412
Deferred income tax assets			
Tax losses carried forward	-	-	-
Capital grants	(172,939)	36,107	(136,832)
Provisions for loan impairment	(506,412)	1,325,352	818,940
IFRS 16 Impact	-	-	-
Other provisions	(745,088)	(314,322)	(1,059,409)
Net deferred income tax liability/(Asset)	**(134,862)**	**849,972**	**715,110**

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

	2022 Shs 000	2021 Shs 000
At 1 January	**715,110**	**(134,862)**
Income statement credit	434,781	849,972
At 31 December	**1,149,891**	**715,110**

27 Share capital

	Number of shares issued & fully paid	Ordinary shares
	Shs 000	Shs 000
Year ended 31 December 2022		
At start of year	27,785,402	27,785,402
At year end	**27,785,402**	**27,785,402**
Year ended 31 December 2021		
At start of year	27,785,402	27,785,402
At end of year	**27,785,402**	**27,785,402**

The total authorised number of ordinary shares is Shs30 million (2021: 30 million) with a par value of Shs1, 000 per share. No share issues were done during the year 2022. Ordinary Shareholders are entitled to dividends when declared and one vote each during the annual general meeting.

28 Bank shareholding

The Bank shareholders are as follows:

Shareholder:	Country of incorporation	Holding	
		2022	2021
Uganda Women Trust (UWT)	Uganda	20.1%	20.1%
Oiko Credit Ecumenical Development Cooperative Society U,A	Netherlands	19.6%	19.6%
Progression Eastern African Micro Finance Equity Fund	Mauritius	18.3%	18.3%
RIF North 1 Investment	Mauritius	18.3%	18.3%
I&P Afrique Entrepreneurs	Mauritius	14.2%	14.2%
Founder Members	Uganda	9.5%	9.5%
		100.00%	**100.00%**

29 Analysis of cash and cash equivalents

	2022 Shs 000	2021 Shs 000
Cash and balances with Bank of Uganda (note 15)	56,721,546	43,060,406
Less: cash reserve requirement	(27,682,105)	(14,674,617)
Government securities - maturing within 90 days (note 17)	7,500,000	-
Balances and placements with other banks (note 16)	64,328,776	49,670,352
	100,868,217	**78,056,141**

Cash and cash equivalents include the cash reserve requirement held with the Bank of Uganda. Banks are required to maintain a prescribed daily average minimum cash balance with the Bank of Uganda from time to time and the amount is determined as 10% of the average outstanding customer deposits over a cash reserve cycle period of two weeks. Whilst it is available for use in the bank's activities and may fall to 50% of the margin on a given day there are sanctions for non-compliance.

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

	2022 Shs 000	2021 Shs 000
Cash & Unrestricted balances with Bank of Uganda(Note 15)	56,721,546	43,060,406
Government securities - maturing within 90 days & AFS (note 17)	7,500,000	-
Balances with other banks (note 16)	5,126,791	3,917,420
Included in cash and cash equivalents	**69,348,337**	**46,977,826**
Restricted balances with Bank of Uganda	-	3,935,800
Movement in restricted balances:		
At start of year	3,935,800	5,000,000
Movement during the year	(3,935,800)	1,064,200
At end of year	**-**	**3,935,800**

30 Analysis of changes in financing activities during the year

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Borrowings Shs'000	Change in capital grants Shs'000	Proposed dividends Shs'000	Lease liabilities Shs'000
31 December 2022				
Balance as at 1 January 2022	**38,064,230**	**456,105**	**1,831,150**	**14,220,011**
Changes in financing cash flows				
Receipts	16,915,660	-	-	-
Repayments of Debt	(4,514,846)	-	(1,831,150)	(3,480,252)
Total changes from financing cash flows	**12,400,814**	**-**	**-**	**(3,480,252)**
Other changes				
Interest expense	6,126,486	-	-	1,723,581
Change in proposed dividends	-	-	-	-
Other changes	(7,172,907)	(169,369)	-	4,005,319
Total liability related other changes	**(1,046,421)**	**(169,369)**	**-**	**5,728,900**
Balance as at 31 December 2022	**49,418,623**	**286,736**	**-**	**16,468,659**

	Borrowings Shs'000	Change in capital grants Shs'000	Proposed dividends Shs'000	Lease liabilities Shs'000
31 December 2021				
Balance as at 1 January 2021	14,433,185	576,464	1,221,906	13,039,571
Changes in financing cash flows				
Receipts	28,416,000	-	-	-
Repayments of Debt	(5,412,565)	-	-	(3,568,046)
Total changes from financing cash flows	**23,003,435**	**-**	**-**	**(3,568,046)**
Other changes				
Interest expense	3,105,891	-	-	1,466,718
Change in proposed dividends			609,244	
Other changes	2,478,281	(120,359)	-	3,281,768
Total liability related other changes	**627,610**	**(120,359)**	**-**	**3,281,768**
Balance as at 31 December 2021	**38,064,230**	**456,105**	**1,831,150**	**14,220,011**

31 Retained earnings

	2022 Shs '000	2021 Shs '000
At 1 January	**26,484,639**	**21,195,893**
Total comprehensive income for the year	8,548,233	9,155,750
Transfer from Regulatory Reserves	(313,416)	(3,257,760)
Transactions with Owners	-	(609,244)
At 31 December	**34,719,456**	**26,484,639**

32 Leases

a) Leases as Lessee

The Bank assesses whether a contract is or contains a lease based on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period in exchange for consideration.

At commencement or modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component based on their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Bank elected not to separate non-lease components and instead accounts for the lease and non-lease components as a single lease component.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right of use is subsequently depreciated on a straight-line basis, periodically reduced by impairment losses, if any and adjusted for certain re-measurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. As at 31st December 2022, the bank had no assets within the definition of investment property.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate is used. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The lease payments included in the measurement of the lease liability comprise of the following:

- Fixed payments, including in-substance fixed payments.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date
- Amount expected to be payable under the residual value guarantee and
- Exercise price under a purchase option that the bank is reasonably certain to exercise, lease payments in an optional renewal period if the bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the bank is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When a lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset or is recorded in profit and loss if the carrying amount of the right of use has been reduced to zero.

The Bank leases all its branch and office premises with the exception of Pallisa & Mukono branches that are Bank owned. The leases typically run for a period of 5 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every three years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Bank also leases IT equipment (The Call Centre and Money Counting Equipment) with contract terms of two to three years. These leases are short-term (maximum possible term of 12 months or less) and/or leases of low-value items (US$5,000 or less). The Bank elected not to recognize right-of-use assets and lease liabilities for these leases with the exception of the call Centre lease whose value was above the threshold of low value items as guided by the standard. As at end of the year 2022, the Bank had running leases; 10 Note counting Machines from Sybl for 5 years with annual lease rentals per machine of Shs413,000 payable semi-annually with an effective date of the lease arrangement was 01 April 2021, and 4-year lease of 27 Note counting machines from Copy Cat with quarterly rentals of 31,541,400. These items are treated as low value considering the cost of each equipment and the netbook value there on seated under the bank's pool of Property plant and Equipment. The expense for 2022 relating to these assets is shown below:

	2022 Shs 000	2021 Shs 000
Depreciation	128,565	289,499
Lease charge	28,484	53,002
	157,049	**342,501**

IFRS 16.53–54 Information about leases for which the Bank is a lessee is presented below:

i) Right-of- use assets

Right-of-use assets relate to leased branch and office premises.

The balance of Right of Use as at 31 December 2022

	2022 Shs 000	2021 Shs 000
As at 1 January	**20,063,773**	**16,957,580**
Additions	8,251,681	4,323,012
Remeasurement of ROU	(1,779,064)	
Write Offs	(1,850,375)	(1,216,819)
As at 31 December	**24,686,015**	**20,063,773**
Amortization		
As at 1 January	(5,835,879)	(4,230,424)
Charge for the year	(3,479,973)	(2,579,633)
Write Offs	1,357,503	974,178
As 31 December	**(7,958,349)**	**(5,835,879)**
Net book value		
As 31 December	**16,727,666**	**14,227,894**

The balance as at year end of future minimum lease payments under non- cancellable finance leases were as follows:

ii) Lease Liability

	2022 Shs 000	2021 Shs 000
Lease liability as at 1 January	14,220,011	13,039,571
Revaluation effect	454,619	223,439
Lease remeasurement	(1,779,064)	-
Lease liability during the year	7,856,967	4,099,573
Lease charge for the year	1,723,581	1,466,718
Lease Interest payments during the year	(1,721,935)	(1,466,718)
Lease Principle payments during the year	(3,480,252)	(2,101,328)
Terminations during the year	(805,268)	(1,041,244)
	16,468,659	**14,220,011**
Not later than 1 year	87,393	72,853
Later than 1 year but less than 5 years	16,381,266	14,147,158
	16,468,659	**14,220,011**

The lease remeasurement relates to an adjustment for value added tax which a non-lease component.

iii) Renewal options

Some leases of the Bank's office premises contain renewal options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The renewal options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the renewal options. The Bank reassesses whether it is reasonably certain to exercise the renewal options if there is a significant event or significant changes in circumstances within its control.

33 Earnings per share

	2022 Shs 000	2021 Shs 000
Profit attributable to equity holders of the Bank	8,548,233	9,155,750
Weighted average number of ordinary shares in issue	27,785,402	27,785,402
Earnings per share (expressed in Shs per share)	**0.308**	**0.330**

34 Related party balances

The immediate and ultimate parent of the Bank is Uganda Women's Trust, which owns 20.1% of the Bank's shares.

The details of related-party transactions and outstanding balances at year-end were as follows:

Loans & Advances to related parties	2022 Shs 000	2021 Shs 000
Loans and advances to key management:	2,380,776	2,177,988
Loans and advances to Directors:	-	-
Loans and advances to Shareholders:		
Ms Wanendeya Ida, Mr Mwambu William Wanendeya on behalf of Carico Café Connoisseur Limited	-	230,939
Ms Lydia Ochieng Obbo on behalf of Fredrick Obbo	147,200	91,408
TOTAL	**2,527,976**	**2,500,335**

Advances to related parties include loans to shareholders and to Key employees as shown above and were all in normal health status with zero days in arrears.

Interest income earned on loans and advances to key management and directors is Shs273million (2021: Shs291 million).

All loans to key management were administered at the approved interest rate on staff loans of 10% while those to the shareholders were extended at a rate of 22%.

Key management compensation	2022 Shs 000	2021 Shs 000
Salaries and short-term employment benefits	3,773,131	3,411,051
Terminal benefits	988,065	792,620
Other staff benefits	292,971	397,515
	5,054,167	**4,601,186**
Directors' remuneration		
Directors' fees	**457,851**	**476,248**

35 Bank Commitments

The following are the commitments outstanding at year end	2022 Shs 000	2021 Shs 000
Guarantee and performance bonds	4,740,117	4,922,121
	4,740,117	**4,922,121**

Other commitments

Commitments to lend are agreements to lend to customers in future subject to certain conditions.

Such commitments are normally made for fixed periods. The Bank may withdraw from its contractual obligations to extend credit by giving reasonable notice to the customers. At 31 December, these included:

	2022 Shs 000	2021 Shs 000
Approved advances not utilized	**797,427**	**979,619**

36 Dividends

Dividends	2022 Shs 000	2021 Shs 000
Dividends Proposed	-	1,831,150
	-	**1,831,150**

No interim dividend was paid during the year 2022 (2022: Nil). After the reporting date, the Board of Directors did not propose any dividend payout for the year 2022 (2022: Shs 1,831 billion). The dividends have not been recognized as liabilities and there are no tax consequences.

37 Transition from Libor Benchmark

LIBOR (London Interbank Offered Rate) transition is the movement of the financial markets away from using LIBOR as the interest rate benchmark to using alternative “risk free” benchmark rates. LIBOR is central and deeply embedded in the pricing mechanisms for a significant proportion of financial markets transactions worldwide.

The Bank does not have any financial transactions linked to LIBOR and therefore no effect on the financial statements as at 31 December 2022.

38 Subsequent events

The Financial Institutions (Revision of Minimum Capital Requirements) Instrument, 2022 dated 16 November 2022 issued to Supervised Financial Institutions (SFIs) required all Tier 1 Financial Institutions to increase their capital positions to a minimum of Ugx 120bn (Uganda Shillings One Hundred and Twenty Billion) by December 31, 2022 and then to Ugx 150bn (One Hundred and Fifty-Billion) by June 30, 2024. The bank was not in compliance with this requirement as at December 31, 2022. However, riding on section 86(2)(b) of the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda, Institutions that fail to meet such minimum capital requirements have a window to submit capital restoration plans to Bank of Uganda within forty-five days of failing to meet the requirements indicating how they plan to close the gap within a period of 180 days effective the day following the compliance deadline, the bank submitted its capital restoration plan and a no objection granted. Relevant activities in line with the plan are already underway.

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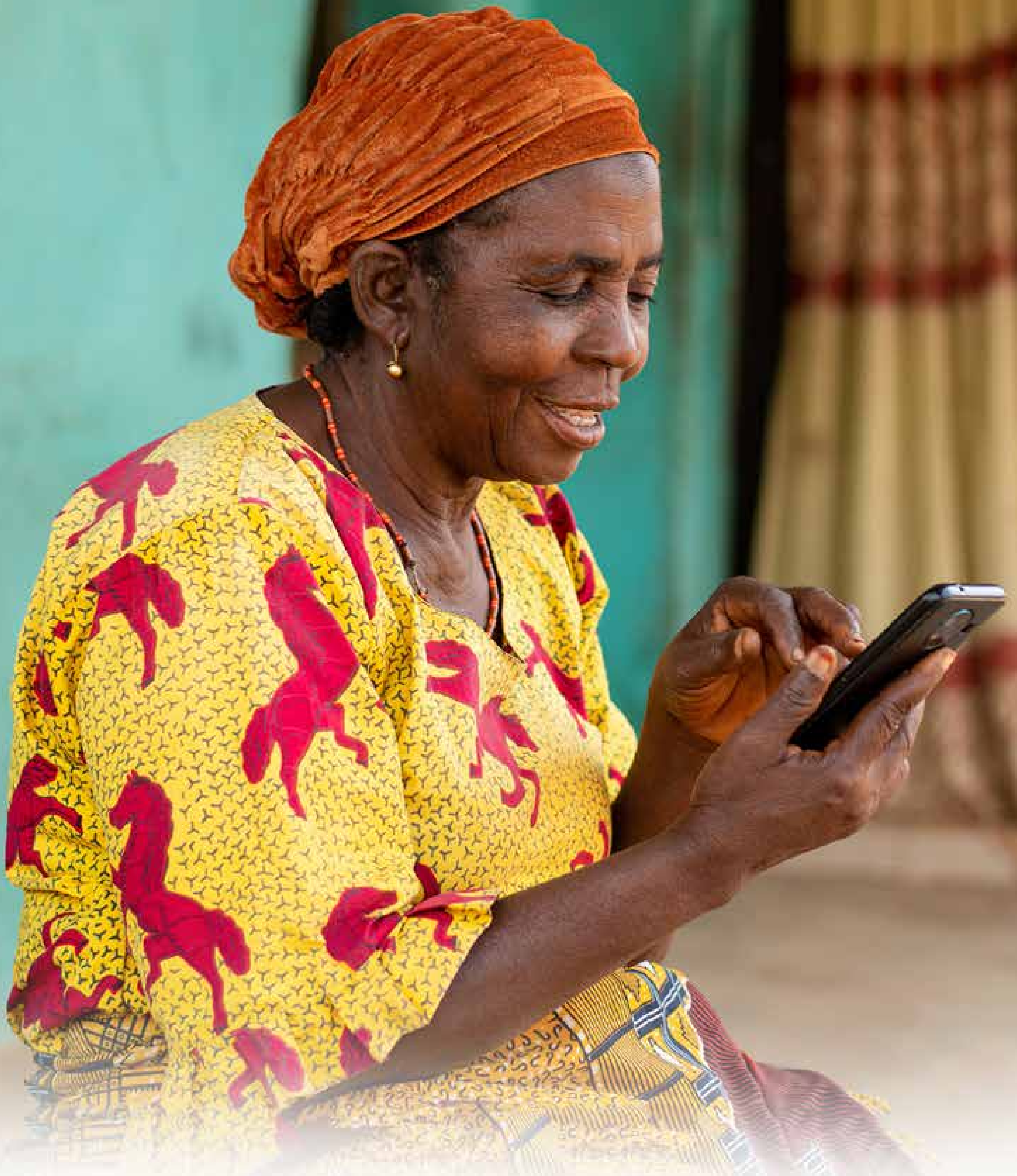

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