FINANCE trust BANK

Putting Women First

Bringing a New Experience to women's banking.

Annual Report

2019

Celebrating

30

years as the first women-centric bank in Uganda

Bringing a New Experience to women's banking.

Mama's Safe Savings

The Mama's Safe Savings account is specifically tailored to women, aged 18 years and above. It is a safe and affordable account that can be opened for individuals and groups.

Women's Business Loan

The Women's Business loan is for women engaged in micro, small and medium businesses who wish to borrow as individuals for long and short term Investments such as adding capital into business, purchase of shares, import and export business.

Women's Home Improvement Loan

The Women's Home Improvement Loan is for women who wish to access funding for household / livelihood improvement such as home renovations and home furnishing.

TABLE OF CONTENTS

ANNUAL REPORT

OUR BUSINESS

GOVERNANCE AND RISK MANAGEMENT

SUS TAINABILITY

FINANCIAL REPORT

FINANCIAL STATEMENTS

Celebrating 30 years of growing **businesses** & **trust** every day

Finance Trust Bank (FTB), a Tier 1 Financial institution was granted an operating license on 11th November 2013 taking over the business of Uganda Finance Trust Limited (MDI). Finance Trust Bank was first registered as an NGO in 1984 as “Uganda Women’s Finance and Credit Trust Limited” which later changed its name to “Uganda Women’s Finance Trust Limited” in 1997. On 12th October 2005, Uganda Women’s Finance Trust Limited was licensed as a Microfinance Deposit taking Institution.

With its headquarters in Katwe, Finance Trust Bank operates a network of 35 branches, including one at Kalangala Islands. 70% of the bank’s branches are located in rural areas.

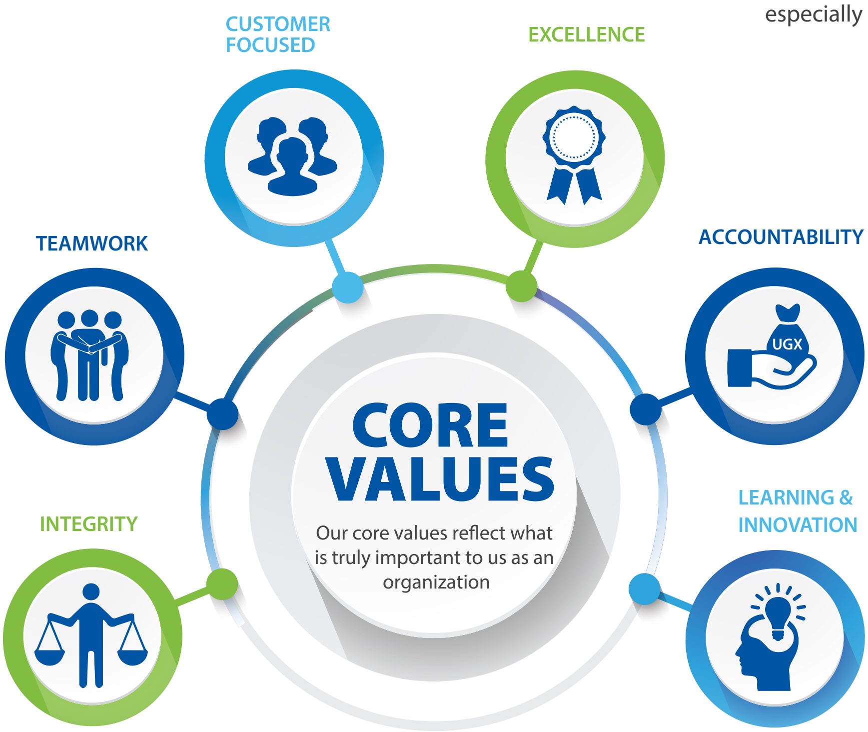
The bank offers a broad range of financial solutions, including loans, deposit accounts, money transfer services, utility bills payments and insurance services to small and medium income people companies, SMEs, institutions and high-net-worth individuals. Finance Trust bank is also active in trade finance and treasury services.

Our Vision

To be the bank of choice.

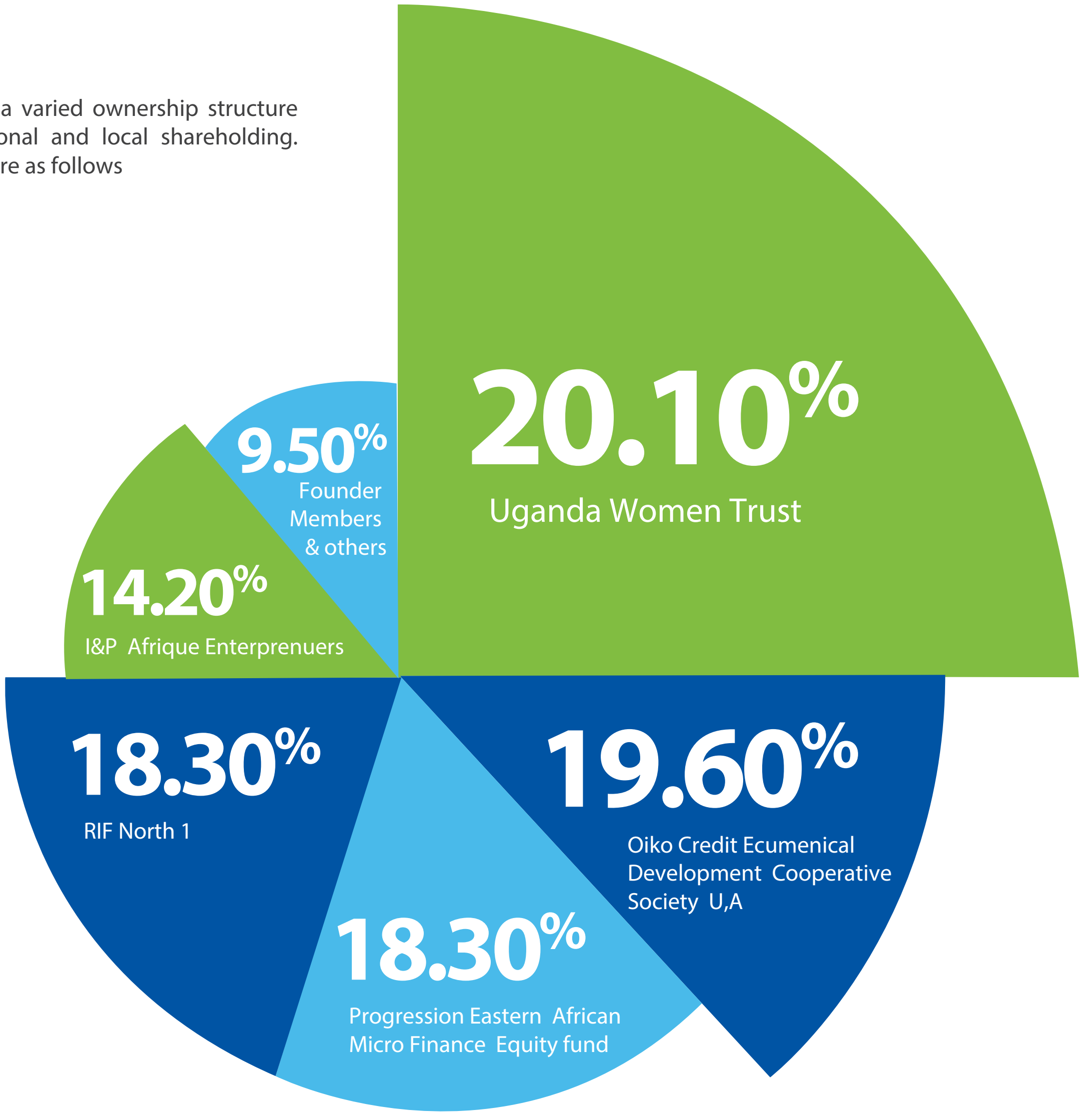
Our Mission

To effectively deliver innovative financial solutions to our customers and stakeholders especially women.



Ownership and Capital Structure

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



Corporate Information

Registered office

FINANCE TRUST BANK LIMITED
Block 6, Plot 121 & 115 Katwe
P.O. Box 6972
Kampala

Company Secretary

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

Auditor

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

Bank Branch Network and Contacts

Arua Branch
Plot 2 Duka Rd
0791 333000

Bugiri Branch
Plot 74,Grant Street,
Tororo Rd
0794 333001

Busia Branch
Plot 53, Custom Rd.
Busia
0794 333002

Nansana Branch
Plot 8538, opposite
Nabweru Junction
0791333106

Central Branch
Plot 1 Bombo Rd,
Sure House
0791 333003

Entebbe Branch
Plot 29, Kampala Rd -
Entebbe
0791 333004

Gomba Branch
Block 212, Plot 117
Kanoni Trading Centre,
Gomba
0792 333183

Owino Branch
Plot 769 (Kafumbe
Mukasa Rd)
0791 333051

Tororo Branch
Plot 7, Bazaar Street,
Tororo.
0794 333044

Iganga Branch
Plot 74, Main Street.
0794 333005

Ishaka Branch
Rukungiri Road,
0794 333006

Nakivubo Branch
Plot 30-32 Mackay Rd, Kampala
Freeman Foundation Building
0791 333046

Jinja Branch
Plot 83 West Main street
Jinja
0791 333024

Kabarole Branch
Rukidi III Street, Fortportal
0791 333026

Kalangala Branch
Plot 52/3 Main Rd
Kalangala
0791 333027

Nateete Branch
Plot 1246 & 974 Nateete
towards traffic lights
0791 333048

Kalerwe Branch
Plot 641 Kibuga
Mengo Kalerwe
(Opp. Shell Petrol Station)
0791 333029

Kampala Road Branch
Plot 4 Kampala Rd
0791 333030

Kamuli Branch
Plot 1 Kitimbo Road,
Kamuli
0791 333031

Ntungamo Branch
Plot 18, Old Kabale Rd,
Ntungamo
0791 333050

Kamwenge Branch
Plot 10, Station Rd
0791 333034

Kapchorwa Branch
Kapchorwa Rd
0791333093

Katwe Branch
Plot 121 & 115,Block 6,
Kampala
0791 333035

Soroti Branch
Plot 49 Gweri Rd,
Soroti
0794 333045

Kayunga Branch
Plot 103 Kayunga Town
0794 333036

Kikuubo Branch
Plot. 21 Nakivubo Rd
Kampala
0791333105

Kitintale Branch
Plot 1315 block 243
Kitintale Trading Centre
0794 333037

Pallisa Branch
Plot 11 Block B,
Gogonya Road
0794 333046

Kumi Branch
Plot 26A, Ngora Rd,
Kumi
0794 333038

Lugazi Branch
Plot 65 Block 316,
Lugazi
0794 333039

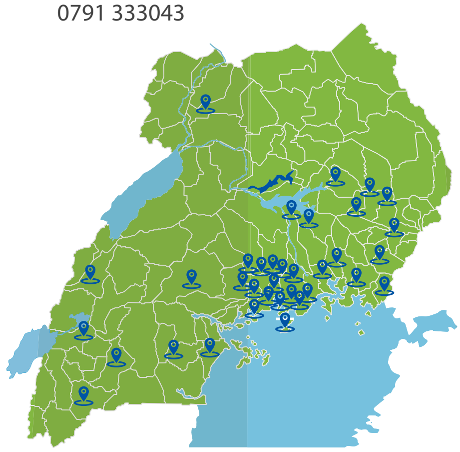
Lwengo Branch
Mbirizzi Trading centre,
Lwengo
0791333155

Mukono Branch
Plot 35, Kampala-
Jinja Rd
0791 333043

Masaka Branch
Plot 17 Edward avenue
0794 333040

Mbale Branch
Plot 23 Republic Street
0794 333041

Mbarara Branch
Plot 31 High Street
Mbarara
0791 333042



Toll free 0800220500 0751 932 900 / 0701 932 901 customercare@financetrust.co.ug
www.financetrust.co.ug @FinanceTrustBankug @financetrust /FinanceTrustBank

Regulated by Bank of Uganda. *Deposit protected by the Deposit Protection Fund.*

On behalf of the Board of Directors, Management and Staff of Finance Trust Bank, it gives me great pleasure to present to our esteemed customers, shareholders and partners the Annual Report and Financial Statements of Finance Trust Bank for the year ended 31 December 2019.

Despite the unprecedented scale of change sweeping across the banking industry globally, I am proud to report that Finance Trust Bank registered satisfactory results.

Board Chairperson

Dr. Evelyn Kigozi Kahiigi

Board Chairperson's Statement

Operating Environment

The operating environment was largely stable for a major part of the year 2019 with only mild political and economic tensions that manifested occasionally. The tensions mainly arose from the stalemate at the southwestern border with Rwanda that disrupted the Import and export business. These challenges are still prevalent but the Government is working tirelessly to respectively resolve the Uganda-Rwanda standoff.

According to UBOS data, Uganda's economy expanded by 6.1% in 2019 compared to the regional target of 5.4%. This expansion was underpinned by growth of 3.8% in the agriculture sector, 7.2% in the services sector, and 5.8% in the industry sector. Average annual headline inflation fell to 3.1% in 2019 from 3.4% in 2018 and was still within the medium term target of 5%.
The Country's financial sector remains sound with commercial banks taking the biggest chunk of total assets, which stand at shs.31.8Trilion. There was a growth in foreign currency denominated loans. The sectors of building, construction and real estate, trade and commerce, as well as personal and household loans remain the major absorbers of both foreign and domestic currency loans. Worth noting is that the building, construction and real estate sector surpasses all other sectors in loan absorption, it also accounted for the biggest chunk of non-performing loans.

On the regulatory front, the Central Bank moved to increase the Deposit Protection Fund (DPF) from Shs.3, 000,000 to
Shs.10, 000, 000 as a means to bolster client confidence in the Banking sphere. We are hopeful that this will increase depositors' trust in the sector following the growth in this safety net provided for retail depositors to spur growth in deposits. The year 2019 registered an 8.8% growth in deposits partially on account of increased client confidence.

In terms of the accounting framework, the year 2019 saw implementation of IFRS 16 where Banks are required to fully recognize rental agreements on the face of balance sheets as these are now treated as leasing arrangements. These were previously reported as off balance sheet items to the extent that they were still unpaid. Adoption of IFRS 16 implied early recognition of rental expenses in the form of financing costs on lease obligations & depreciation on the capitalized right of use on all premises. The other effect was increase in risk-weighted assets for purposes of capital adequacy computations as a result increase in the asset base. The overall effect of this was a reduction in the banks' profitability and the capital adequacy ratios.

The growth in the use of technology has brought tremendous advantages to the economy. The unbanked population is now able to participate and utilize the financial ecosystem. This has enabled greater financial inclusion, increased access to retail deposits, increased efficiency, and remote access to traditional banking. As a result, the Bank registered greater demystification of banking services and decentralization of financial services. Finance Trust Bank has strategically positioned itself by collaborating with FinTechs to enable access to financial services for low-income earners affordably.

The country registered a trade surplus that strengthened the shilling against other currencies coupled with other interventions deployed by the Bank of Uganda. The country saw a significant increase in digital payments, which serve as an alternative to cash and an increased demand for fast and convenient payment solutions. Finance Trust Bank has positioned itself to support this operation through platforms such as the Trust Mobile and Agent Banking

The domestic equity market remained subdued with listed companies showing price reductions, which is an indicator of performance challenges in some of the listed companies. On the other hand, with CIPLA Quality Chemicals issuing an IPO and joining the listed companies, the domestic market capitalization increased by 3.3% compared to 2018.

Financial Performance

The Bank's performance in the year 2019 continued to progress on positive trajectories on all fronts. Net profits recorded an annual increase of 4% from Shs. 5.85Bn to Shs. 6.1Bn. This profitability was stimulated by increased customer engagement across the bank, continued pro-activeness in risk management as well as our transformational initiatives supported by technology integration.

Total assets of the Bank grew by 25% from Shs. 206 Bn in 2018 to Shs. 258 Bn in 2019 with net loans and advances increasing by 25.5% from Shs122.7Bn in 2018 to Shs.153.9Bn in 2019 supported by a 23.7% growth in customer deposits from Shs124.3 Bn to Shs153.8Bn in 2019.

Corporate Governance and Board Changes

Finance Trust Bank recognizes the principles and importance of corporate governance. In line with the principles, the bank has continued to comply with the statutory requirements and adhere to the recommended corporate governance practices. The Bank strives hard to serve the interests of all its stakeholders (shareholders, customers, employees among others). In addition, I want to affirm that the Bank will continue to maintain a high level of business ethics in order to maximize the shareholders' value as well as protecting their interests.

During the year 2019, two alternate Directors vacated the Board; Patricia Asiimwe Kahiigi representing Founder Members and Andrej Machacek representing PEAMEF. We sincerely thank them for their dedication and contribution to the growth of the Bank. In the same spirit, on behalf of the Board of Directors, I would like to welcome Director Ndyanabo Gervase to the Board. He comes with vast knowledge and experience in corporate governance and finance, attributes that are key in strengthening the Board's effective strategic support and oversight.

Focus on Women

The Banks' strategic focus on women remains unchanged to keep in line with the deep-seated aspirations of the founding members. The bank has continuously dedicated funds to empowerment of women & the girl child through financial literacy and to-date, 52% of the Bank customers are women. This initiative for the first time expanded to include women in prisons where skills of budgeting and financial planning were imparted to over 200 women inmates in Luzira Prison. The purpose of this was to develop the women's financial skills and capabilities to manage life once released from prison.

2020 Outlook

Following the global outbreak of the COVID-19 pandemic in late 2019, the financial sector has seen a negative impact that started in the early months of 2020 and the anticipation is that this will stay on until the end of year. The Government of Uganda embarked on developing measures to combat the COVID-19 spread in order to protect the general health of the people of Uganda. Part of the measures taken was a countrywide lockdown that forced people to stay home with minimal movements for only essential worker. Regulation defined Banking services as essential and therefore bankers as essential workers; as such, this necessitated the bank to stay in operation while observing the set standard operating procedures. Restricted movement of people, goods & services as pandemic containment measures led to sharp contraction in manufacturing, trading and provision of services within and outside Uganda. The impact on the rest of the world through curtailment of business travel and tourism and disruption of supply chains has indeed lowered any favorable prospects of economic growth in 2020. While World Bank projected that 2020 will see the world economy grow by 2.5% pegged on reduced global trade tensions; the predicted growth remains uncertain due to the global outbreak of Covid-19 pandemic.

The Government has introduced a series of stimulus measures to minimize the economic impact in the wake of the COVID-19 pandemic. In the latest move, the Central Bank contracted the CBR further to 7% from 8% to dis-incentivize options of investing with it as part of the interventions to spur private sector credit and give impetus to the economic stimulus. Market players however continue to trade consciously now that the COVID -19 lockdown is beginning to ease both locally and globally. With the guidance of the Central Bank and Uganda Bankers Association, clients were given moratorium to allow their businesses to recover and as such all such customers have had their loans restructured.

This being an unprecedented period in our country and the whole world, the Bank pledges to support all Government's measures concerning the financial sector as well as investing in technology to deliver efficient services and attain our objective of ensuring financial inclusion for all.

Appreciation

As we continue our journey to create long-term value for our stakeholders, On behalf of the Board of Directors, I take this opportunity to thank the shareholders for their relentless support. I would also like to acknowledge and appreciate our customers for making Finance Trust Bank their "Bank of Choice". Their continued engagement with us is a clear indication that level of confidence they hold for the Bank is solid.

We also acknowledge the support from our various partners whose inputs have contributed to the current Bank position. I want to thank our regulator, Bank of Uganda for providing an enabling business environment. I take this opportunity to appreciate and thank my fellow Directors for their wise counsel and commitment to the Bank at both board and committee levels.

The Bank's good performance in 2019 is testimony to the continued dedication of the Management team and Staff of Finance Trust Bank. I would like to thank them for their tireless commitment and contribution to the Bank.

Finally, I look forward to your continued and valuable support in 2020 and beyond.

I thank my fellow Directors for their wise counsel and commitment to the Bank at both board and committee levels.

In conclusion, I want to thank our regulator, Bank of Uganda for providing an enabling business environment.

....

Board Chairperson
Dr. Evelyn Kigozi Kahiigi

Winner!

Finance Trust was awarded The Best Bank of the Year at the Visionary Awards 2019 under the category of Banking and Finance.

It gives me momentous honor to present the Bank's annual report and financial statements for the year ended 31st December 2019. The operating environment was favorable for a major part of the year and this saw the bank register success in all the major parameters. The Bank recorded improved positions in profitability, total assets, net loans & advances and customer deposits among others.

Managing Director

Annet Nakawunde Mulindwa

Managing Director's Statement

After tax profits grew by
4%
from
5.85bn in 2018 to shs
6.1bn in 2019

Customer deposits grew by
23.7%
from
124.3bn in 2018 to shs
153.8bn in 2019

Total assets grew by
25%
from
206bn to shs
258bn

Net loans & advances increased by
25.5%
from
122.7bn in 2018 to shs
153.9bn in 2019

Performance Review

The year 2019 was the final year of implementation of the Banks 3 year business plan for the period 2017-2019.

The Bank's balance sheet size expanded by 25% closing the year 2019 at Shs 258.5bn from a value of Shs 206.5bn at close of 2018. Net loans and advances to customers, the principle revenue-generating asset increased by 25.5% to Shs 153.9bn from Shs 122.7bn at close of 2018, while the investment portfolio closed at Shs 41.7bn. The 28.3% growth in customer deposits from the 2018 level of Shs 139.7bn to Shs 179.2bn at close of 2019 came in handy to support the stated growth in assets

Due to the above balance sheet movements, total revenues increased from Shs 60.9bn in 2018 to Shs 66.0bn in 2019 mainly supported by improved revenue realization in Interest and fee Incomes, the main revenue lines for the bank from the 2018 levels of Shs 59.1Bn to Shs 64.4Bn for the year 2019. The cost to income ratio was maintained at 87% for the two years of 2018 and 2019.

Following from the above P&L dynamics, the Bank posted net profits of Shs.6.1Billion, registering a 4% growth from the prior year results.

Strategic Milestone; Business Development

Product and service Innovation

The strategic theme for the past three years was "leverage technology" for better service delivery to customers. The bank throughout the year on boarded several customers on alternative transactional channels to ensure quick & convenient access to the banks services for better customer value proposition. By end of 2019, the bank had registered over 50% of all its customers on the mobile banking platform and has over 100 customer serving agents countrywide and this number continues to grow.

In addition, the last twelve months period to December 2019 saw the bank register key milestones in a number of business support areas as follows:

1) Integrated with the School Pay platform that enabled customers to make school fees payments conveniently without coming to the banking hall.

2) Signed-on two new Mobile Money Transfer service providers i.e. Xpress Money and World remit to give our customers more options in the electronic money transfer arena cross the globe.

3) Enhanced the Trust mobile value proposition through introduction of Luganda version of the application, introduction of mobile number validation while pulling money from bank accounts to mobile wallets and improved turnaround time for the Trust Mobile application by automating PIN resets

4) Enriched the agent banking platform to allow for; school fees payments using bank slips, and customer withdraws at agent locations

5) Revamped the internet banking portal to improve user experience

Innovations towards improved customer experience will continue to sit at the core of Bank operations as we seek to achieve continuous improvement in our customer value proposition

Customer Focus

Pursuant to its customer centric business models, the Bank continued to deliver customer service support through customer engagement programs. Customer engagement activities provide opportunity for more interaction with customers outside the Banking halls while providing a platform for the Bank to share new developments in the product and services offering of the Bank.

During the year 2019, the Bank held 10 customer engagement activities in the areas of Kalangala, Mukono, Jinja, Kamuli, Kapchorwa, Mbale, Ishaka, Kamwenge, Mbarara and Ntungamo. These were very well attended, a lot of customer feedback generated and the same was helpful in informing improvement in a number of processes to deliver customer satisfaction.

The banks toll free contact center continues to offer instant and timely support to customers as they go around doing business with the bank.

Partnerships

The Bank in partnership with Uganda Registration Services Bureau launched the first account on the Security Interest in Movable Property Registry System (SIMPRS) platform. This is a government initiative that allows micro, small and medium enterprises as well as individuals whose major constraint to economic growth is lack of affordable credit, to use their movable assets as collateral for loans. This will go a long way in encouraging further lending to micro individuals as we streamline the process of registration of movable property.

Capacity Building

The bank continued to make a significant investment in upskilling of its human resource to stay relevant and match up with the ever changing operating environment while bridging the skills gap and building capacity to deliver on the demands of the market. Further training was done in response to the new developments in the regulatory environment.

2020 Outlook

The year 2020 started in turmoil, not only in Uganda but also throughout the world on account of the Corona Virus (COVID-19) outbreak.

The global outbreak is set to deal an inevitable blow to the country's growth for the first half of 2020 given its disruptions to the flow of economic activities coupled with its impact on health care systems. The Global economic outlook looks dimmed by the effects of COVID-19 though efforts are underway across the globe to try to find treatment for the same.

In response to the outbreak, the Government rolled out a series of interventions in the areas of transport, health, economic activity and all other general operations in an effort to curb the spread of the virus. The interventions translated into a partial lockdown of the country with minimal activity within the economy. Specific to the Banking sector, the Central Bank issued a set of guidelines that eased compliance requirements for Banks to accommodate the tightened operating environment.

As a Bank, we have undertaken a raft of measures in line with the guidelines to banks by the Government through the Central Bank of Uganda. The measures adopted include; increased support to customers through call center engagements, intensified publicity on the use of alternative delivery channels to access banking services, opening for renegotiation of loan terms on customer requests among others. This has helped to engender customer confidence in the bank.

Despite the aforementioned disruptions, the Bank continues to focus on creation of a high performance culture amongst its staff fraternity with key focus on the customer. Consequently, we as a Bank will focus on; Harnessing customer potential, Understanding customer needs and Growing with our customer. This "HUG campaign" will underpin Bank activities in the year 2020.

Appreciation

I wish to recognize the effort of our members of staff for the hardwork that saw the bank's performance improve. I would like to thank our customers who despite the various choices available to them continue to choose Finance Trust Bank as their bank of choice. They are truly the reason we exist.

I would also like to extend my gratitude to the Board of Directors for the support and guidance they provided to the Bank throughout the year 2019.

I look forward to even a better year 2020 regardless of the current global challenges.

....

Managing Director
Annet Nakawunde Mulindwa

Harnessing customer potential

Understanding the customer needs

Growing with the customer

The Executive Management

Annet Nakawunde Mulindwa
Managing Director

Annette Kiggundu
Executive Director

Patricia Kemirembe Katende
Company secretary/ Head, Legal

Percy Paul Lubega
Head of Business Development

Rachael Nantongo
Head of Banking Operations

Ali Lwanga
Head Credit

Dr. Richard Ssekibuule
Head ICT

Christine Namata
Head Finance

Fredrick Muyanja Musoke
Head Internal Audit

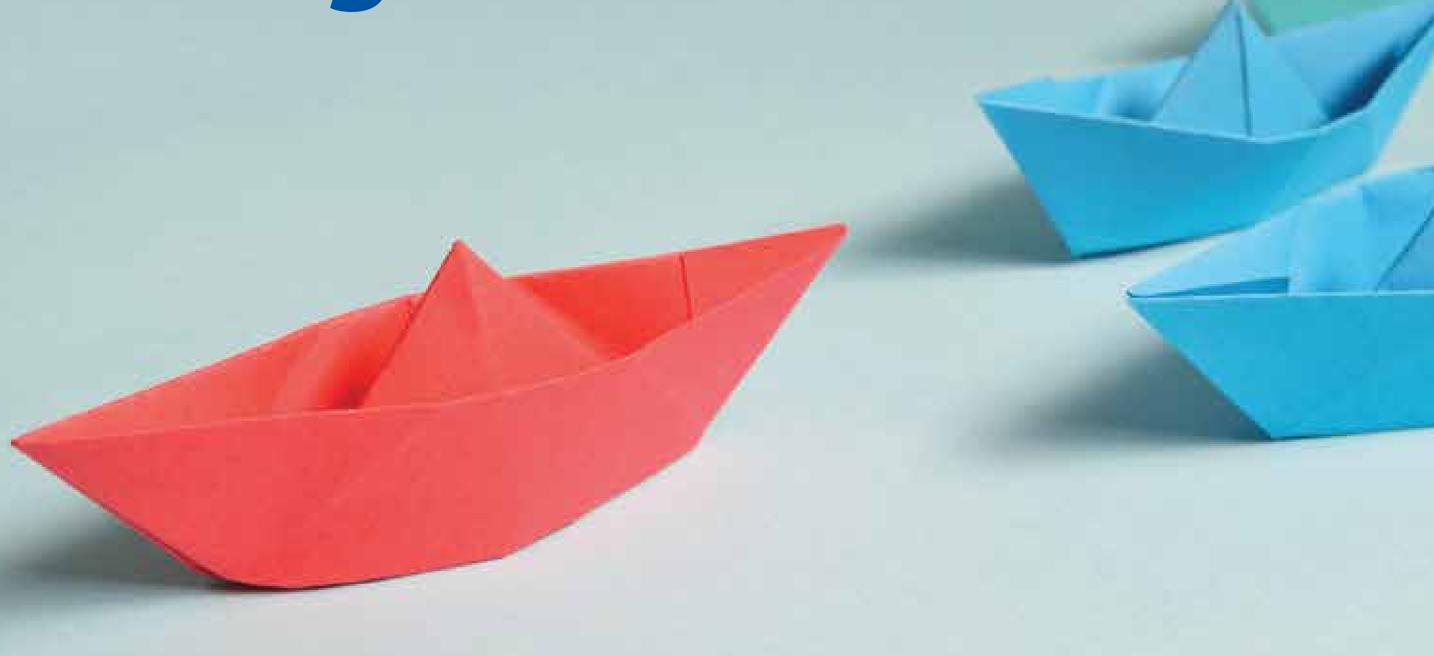
Stella Naigulu
Head Human Resource

Martin Acegere
Head Risk

Sarah Gwokyalya
Head Compliance

Isa Mukasa Kikomeko
Head of Treasury

Statement of Corporate Governance and Risk Management



Statement of Corporate Governance

The Board of Directors

The Board of Directors act as an agent of the shareholders and is accountable for the performance and affairs of the company which it delegates to its 5 committees including, the Board Audit Committee, Board Risk Management Committee, Board Asset and Liabilities Committee, Board Compesation Committee and Board Credit Committee but remains responsible. The Board has an oversight role and is expected to perform the following responsibilities:

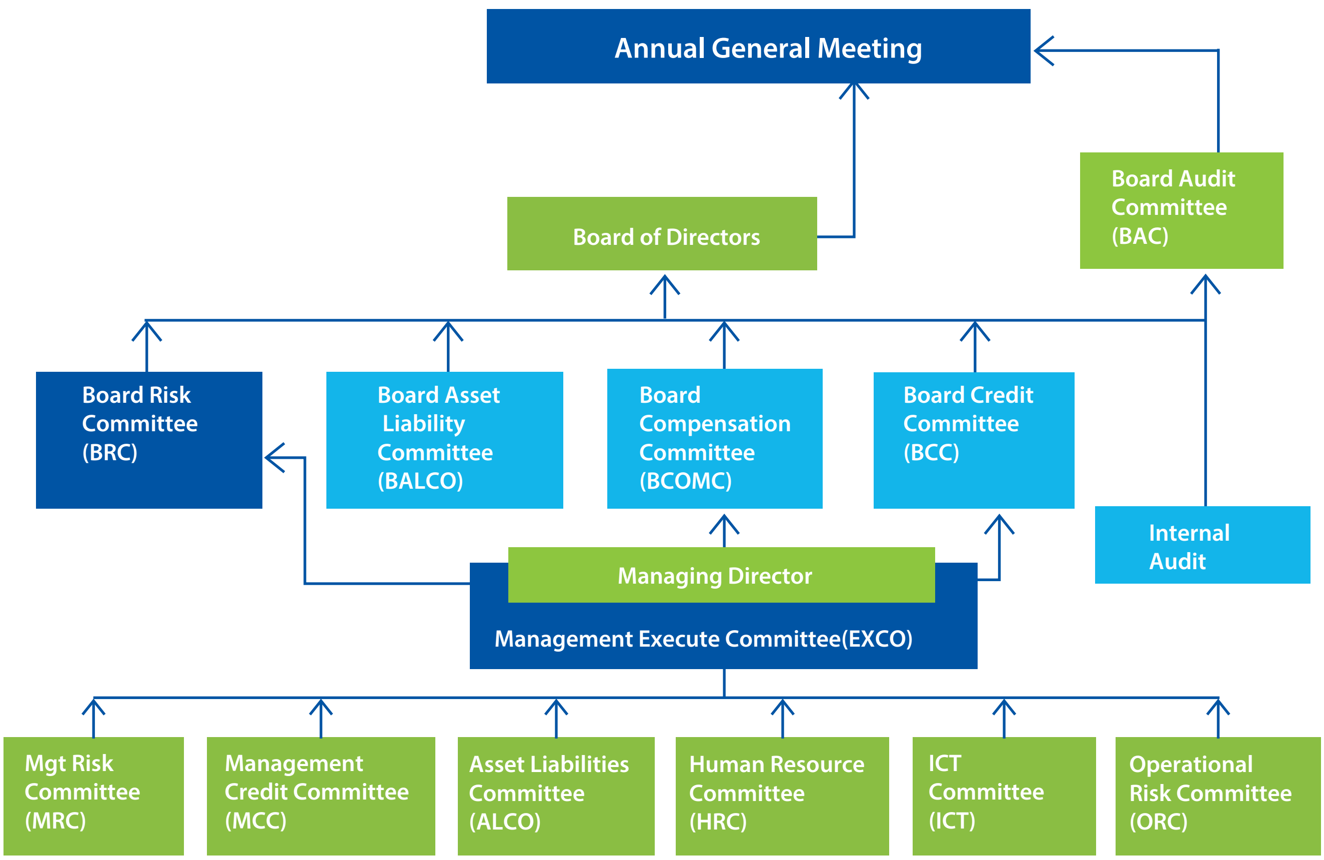
• Policy Formulation
• Strategic thinking
• Accountability
• Monitoring and Control

The Board of Directors is composed of a mix of international and local directors with expertise and diverse knowledge and experience in the banking business as well as governance and meets quarterly.

Governance

Finance Trust Bank's risk governance structure is comprised of the Board, Senior Management and functional risk oversight. Risk at both Board and senior management level is governed through the Board and Management Committees set up at both levels respectively.

The Governance Structure



Board Committees;

The Board is constituted of five committees namely:

- Board Assets and Liabilities Committee (BALCO), chaired by Director Lydia Koros.
- Board Audit Committee (BAC), chaired by Dr. Albert Richards Otete
- Board Risk Committee (BRC), chaired by Director Tor Gull.
- Board Credit Committee (BCC), chaired by Director Grace Aliakai.
- Board Compensation Committee (BCOMC), chaired by Director Jean-Louis de Montesquiou.

Adhoc committee
- Exit Transaction Committee (ETC) chaired by Dr. Albert Richards Otete

The Board of Directors' was chaired by Dr. Evelyn Kigozi Kahiigi. The composition of the committees was as follows:

The Board Risk Committee (BRC)

Board Risk Committee (BRC)

Tor G. Gull	- Member
Grace Aliakai	- Member
Albert Richards Otete	- Member

Roles

The BRC ensures that the institution achieves its goals by ascertaining that it has adequate, effective and efficient systems of internal control and processes that are functioning to protect the institution's assets and minimize bank wide risks. The BRC is responsible for promoting a strong risk culture in the bank.

The BRC is comprised of a chairperson and two non-executive directors appointed by the Board. The Board ensures that every member appointed to the BRC is independent of current management and is free from any relationship that would interfere with his / her exercise of independent judgment. The committee meets on a quarterly basis and is charged with the following responsiblities:

• Review and recommend to the Board of Directors the risk management policies of the bank.
• Ensure that the delegation of authority and approval levels is clearly defined with clear Terms of Reference for the different authority levels within the bank.
• Review and provide guidance on the Business Continuity Management processes and practices of the Bank.
• Review the Company's operational and strategic business risk exposures in accordance with the risk appetite.
• Review compliance to financial and related directives issued by various authorities such as the Uganda Revenue Authority, the Bank of Uganda, and compliance with legislation including the financial instiutions Act, Banking Act and the Companies Act.
• Ensure that the bank information systems are secure and adequate to support the delivery of the bank's strategic objectives.

The Board Assets and Liabilities Committee (BALCO)

The Board Assets and Liabilities Committee (BALCO)

Lydia Koros	-Member
JL de Montesquiou	-Member
Loic de Canniere	-Member
Mary Oduka Ochan	-Member

Roles

This is composed of a Chairperson and at least two members appointed by the Board. The Assets and Liabilities Committee meets quarterly and has the following responsibilities:

• Ensuring compliance with statutory requirements (cash reserve, liquidity, capital adequacy e.t.c) stipulated in the FI Act 2004, Regulations there under / BOU Guidelines and directives from time to time.
• Provide and review policy guidelines for Assets-Liability management in line with the Bank's corporate goals.
• Recommending a mix and maturity profile of incremental assets and liabilities.
• Advising on the Funding Policy i.e. to decide on the source and mix of liabilities or sale of assets.
• Monitoring the Bank's policies, procedures and holding portfolio to ensure that goals for diversification, credit, quality, profitability, liquidity, community investment, pledging requirements and regulatory requirements are met.
• Review, monitor and advise on the performance of the Institutional budget.

The Board Compensation Committee (BCOMC)

Board Compensation Committee (BCOM)

JL de Montesquiou	- Member
Mary Oduka Ochan	- Member
Robert Kirunda	- Member

This is composed of the Chairperson and at least two non-executive Directors of the Board The Committee meets quarterly and is charged with the responsibility of:

Roles

• Review and make recommendations to the shareholders for remuneration, including incentives, for the Board and Senior Management.
• Consider and approve the organizational structure of the Bank and ensure that the bank has an up-to-date succession plan for officers holding senior managerial positions.
• Ensure that the welfare of bank staff is adequate that is, staff remuneration and benefits are within the ability of the Bank to sustain as well as sufficiently oriented towards open market trends.
• Ensure that management promotes and / or maintains a conducive working environment, good employee relations, throughout the bank; that the culture of merit and professionalism evolves, thrives and percolates throughout all categories of employees.

• Ensure that the Bank's HR policies, procedures and systems are sound, effective and up to date with current trends and practice.

The Board Credit Committee (BCC)

The BCC is composed of a chairperson and at least two non-executive Directors of the Board.

Board Credit Committee (BCC)
Lydia Koros - Member
Tor Gull - Member
Grace Aliakai - Member

Roles

• The Board Credit Committee is charged with assisting the Board in monitoring the growth and quality of the credit portfolio and to ensure compliance with regulatory requirements.
• The Board Credit Committee sits quarterly and is charged with the following responsibilities:
• Review and oversee the overall lending policy of the Bank and be informed of the Institution's credit practices and procedures.
• Deliberate on and consider loan applications beyond the discretionary limits of the Management Credit Committee;
• Direct, monitor, review and consider all issues that may materially impact on the present and future quality of the Bank's credit risk management;
• Review and delegate lending limits to the sanctioning authorities of the Bank;
• Assist the Board in discharging its responsibility by reviewing the quality of the Bank's loan portfolio, and ensuring adequate provisions for Non Performing Loans in compliance with Prudential Guidelines of BOU on risk classification and provisioning of assets;
• Conduct loan reviews independent of any persons or committee responsible for sanctioning credit;
• Ensure that the credit risk strategy and policies are effectively communicated throughout the Bank to enable the Bank to adopt safe and sound banking practices.
• Monitor management's compliance with all other regulatory requirements including, the BOU Act, Financial Institutions Act, BOU Prudential Regulations, and Circulars issued by the Bank of Uganda of Uganda and any other relevant laws in force, and ensure implementation of any recommendations made by them.
• Review and Oversee the activities related to Credit Reference Bureau within the bank to ensure compliance with the laws, guidelines and regulations, and ensure continuous improvement of quality of data submitted to the Credit Reference Bureaus.

The Board Audit Committee (BAC)

This is composed of a Chairperson and at least two non-executive Directors appointed by the Annual General Meeting. Ultimately, Finance Trust Bank aims to ensure that at least one of the committee members has a sound financial/accounting background.

Board Audit Committee (BAC)
Albert Richards Otete - Chairperson
Loic De Canniere - Member
Robert Kirunda - Member

Roles

The Audit committee meets quarterly and is charged with the responsibility of:

On instructions from the Board to appoint external auditors, the BAC will recommend to the Board the external auditors to be appointed after considering the scope of work, the audit fees, the profile and independence of the audit firms.

• Review the scope and the effectiveness of the Internal Audit Department and provide direction on enhancing the utility of the Department through clearly laid down processes, procedures and time frames.
• Review the internal audit report and audit programs of the bank.
• In line with the current practice, the BAC handles the recruitment of Head of Internal Audit and refer to board for ratification.
• BAC evaluates the Head of Internal Audit in consultation with the chairman of the Board, and recommend to the management the remuneration including annual increments and performance bonuses.
• Commission such ad-hoc internal audit assignments as deemed necessary by BAC, management or the Board.
• Review the internal controls, operating procedures and systems and management information systems of the bank.
• Review the financial statements of the Bank and make recommendations.

The Board activities in the year

• Reviewed Assets & Liability Management reports to ensure effective utilization of Bank resources
• Reviewed Financial performance reports
• Reviewed and considered budget for 2020
• Reviewed a new Strategic Business plan for the period 2020 to 2022
• Approved a provident fund for Employees
• Approved a new optimal Organizational structure to deliver
• the new strategic plan
• Sourced for an additional Independent Director to enhance the Board Independence
• Conducted performance assessment of General managers and executives

Exits:

Two Alternate Directors exited the Board. Andrej Machacek representing PEAMEF and Patricia Asiimwe Kahiigi representing Founder members.

Training for the Directors

For the period under review, the Board received both local and international training in specialized areas including Leadership and strategy.

Risk Management

Risk management is at the core of all decisions made by the bank at all levels. 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 Board of Directors has the ultimate responsibility for the level of risk undertaken by the bank. It approves the overall business strategy and policies to ensure that senior management is fully capable of managing the activities that the Bank conducts.

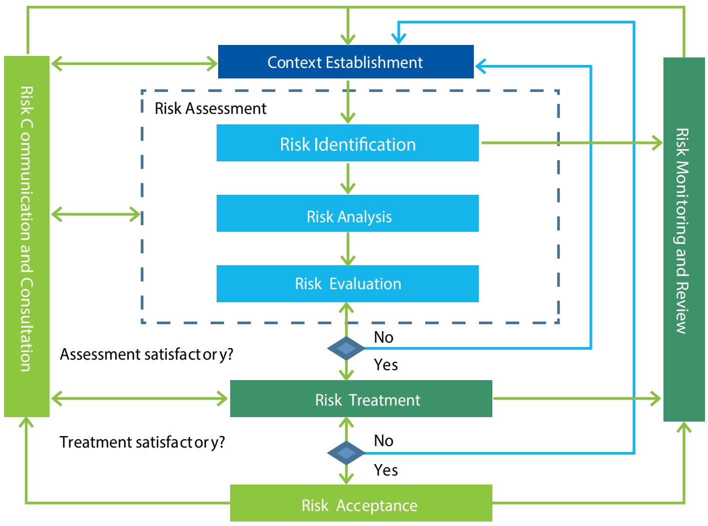
Senior management is responsible for implementing the approved strategies and policies in a manner that limits risks associated with each strategy.

Risk Management process

The Bank manages risk through coordinated set of activities and methods for identifying, analysing it and then 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 the remaining process which involves identification, assessment, control, monitoring and reporting.

The Bank's risk management process comprises of following elements.



Risk identification is a process that 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 multiple risks.

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.

The consequences of the risk is based on the financial impact on capital and profitability, impact on occupational Health and safety of our stakeholders, reputational damage to the FTB brand and compliance to statutory and regulatory requirements.

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.

The bank continually checks the evolution of risks and performance of the risk treatment strategies through regular risk monitoring and reviews supported by the Management Information System.

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 or reporting to the stakeholders of the Bank, is an ongoing activity that is done through the risk assessment reports that are discussed in the monthly and quarterly management and Board risk committee meetings.

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.

During delivery of services, businesses experience disruptions arising from natural disasters and man- made disasters such as earthquakes, Fire outbreaks, floods, supply chain disruptions, pandemic outbreaks, and loss of network and communication channels among others.

Finance Trust Bank is cognizant of the possibility of such disruptions and has developed an up-to- date Business Continuity Plan that details the policies and procedures to safe guard people, bank assets and critical business operations in the face of disruptions.

The policies and procedures that are regularly reviewed for appropriateness highlight the critical resources and decision-making procedures and thresholds during recovery.

Through Business Continuity Planning, the bank has identified critical operations that must be recovered within the shortest possible time when disruptions occur and developed the enabling framework to ensure service delivery is achieved within the set timelines.

Fraud Management

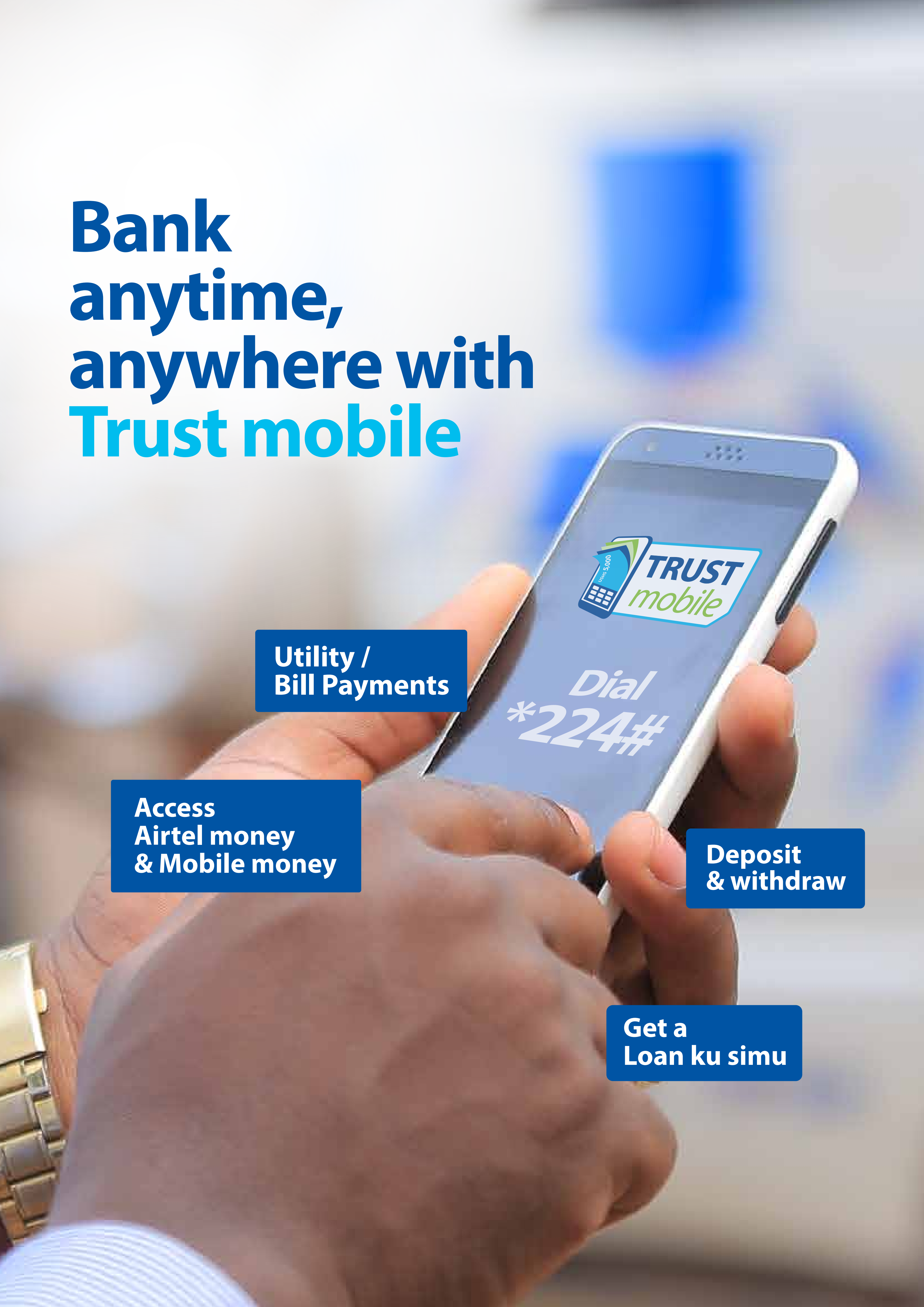
The increased use of technology in delivery of bank services coupled with emergence of a relatively younger tech savvy generation of bank customers and moral decadency has seen an increase in fraudulent attempts on banks and bank customers globally.

At Finance Trust Bank, we recognise the imminent danger arising from both external and internal threats and as such go to great lengths to ensure safety of our corporate and clients information and funds. Particularly, cyber fraud is on the increase and though the bank did not register any case of cyber fraud in 2019, a number of industry players were affected leading to loss of billions of shillings in revenues. The bank safeguards itself from cyberattacks through enforcing a strong IT security framework encompassing both physical and logical controls.

Industry-wise, there has been prevalent suppression of loan instalments for banks serving the micro finance market where loan officers collect loan instalments and delay or do not credit the customers' accounts. Finance Trust Bank has registered and investigated cases of similar nature and this is being resolved by encouraging customers to register for alternative channels such as mobile banking, internet banking and agent banking which eliminate the temptation by clients to channel their funds through loan officers.

The Board and Management maintain a zero- tolerance stance towards fraud and instituted the following strategies to mitigate fraud at a broad level;

- As part of the process for continuous improvement, the bank regularly reviews and tightens the control environment to avoid reoccurrence of frauds. This involves process reviews and physical and logical access restrictions
- Back ground checks on staff at inception and continuous Due Diligence on all staff for timely detection of red flags for unethical behaviour.
- The bank has provided channels for staff and other stakeholders to report any suspected fraudulent and unethical behaviour through the bank's dedicated whistle blowing channels.
- The bank emphasizes use of alternative delivery channels such as mobile banking, internet banking and agent banking to curb suppression of customer deposits.
- The bank continuously creates fraud awareness covering areas of prevention, detection and response to both new and old staff.
- As an effort to deter fraudulent behaviour, the bank extends punitive action against the offenders through demotion, suspension, termination and dismissals. Furthermore, the bank ensures recovery of funds lost due to fraud as guided by bank policy and Uganda laws.


Bank anytime, anywhere with Trust mobile
TRUST mobile
UShs 5,000
Dial *224#
Utility / Bill Payments
Access Airtel money & Mobile money
Deposit & withdraw
Get a Loan ku simu

Board Members & Share Holders

Board Members and Shareholders share a light moment during 2018 Annual General Meeting.

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 the current PTA Chairman and Board member of Gayaza High School. She is a youth mentor and an advocate for academic and social excellence. Her interests are inclined towards 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.

Annet Nakawunde Mulindwa
Managing Director

The Managing Director of Finance Trust Bank, Mrs. Annet Nakawunde Mulindwa is a banker by profession with over 14 years' practical experience in Banking and Micro nance. 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.

Mrs. Mulindwa 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

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 12 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 Helsinki School of Economics/University of South Carolina

Loïc De Cannière

Director

Loïc De Canniere joined incofin investment management as CEO in 2001. He successfully restructured and grew the fund management company into one of the largest microfinance and impact investment fund management companies, with a very strong focus on balancing financial and social returns. Today, Incofin Investment Management manages combined total assets of 500M USD. Incofin Investment Management's flagship funds are Rural Impulse Fund I & II, which are focusing on investments in rural microfinance institutions, incofin investment management's investor base comprises large private institutional investors and development finance institutions. incofin investment management has a team of 36 dedicated professionls and has offices in Belgium (Antwerp), Colombia (Bogota), India (Chennai) and Kenya (Nairobi).

Recently, incofin investment management launched "Fairtrade Access Fund", an impact investment fund providing finance to Fairtrade labelled producers organisations worldwide. He actively promotes the inclusion of social performance parameters into microfinance and impact investments, by partcipating in the PIIF Steering Committee and by adhering to other initiatives, such as the Social Performance Task Force. Before he joined Inco n, 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).

Mary Achan Oduka-Ochan

Director

Mary Achan 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.

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.

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 nance 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.

Albert Richards Otete

Director

Albert Otete is a Certified Public Accountant (CPA – Uganda, Kenya, Rwanda, and Tanzania) with extensive and diverse experience in audit, accounting and business consulting spanning two-and-half decades. He is currently the Chief Executive O cer of J.SR Consulting Limited, a leading indigenous business advisory rm in East Africa. He has previously worked with international accounting rms (PwC and KPMG) rising to position of Senior Manager. He was Deputy Head of Finance (2 years) at Stanbic Bank Uganda and rising to Head of Internal Audit (8 years) at the same bank. He then spent 2 years overseeing Core Banking implementations within Standard Bank covering 8 countries. He is a Member of the Institute of Internal Auditors.

Albert is a Member of the Technical Committee of the Institute of Certi ed Public Accountants of Uganda, a committee charged with promoting compliance with professional auditing and accounting standards. Albert is also a Member of one of the Public Sector Audit Committees of the Ministry of Finance, Planning and Economic Development of Uganda.

Albert is a PhD Candidate in Business Administration with the University
Institute of International and European Studies (UNIES, Netherlands) in collaboration with ESAMI Business School.

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 is currently working at ATX Technology, an entrepreneurial business with the main focus on Finance.

Mrs. Aliakai is a director 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..

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.

David Senoga

Alternate Director

David Ssenoga has 27 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) and is the appointed auditor of the Institute of Certified Public Accountants of Uganda (ICPAU). 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 Certi ed Public Accountant.

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

Jeremy Hadjenberg

Alternate Director

Mr. Jeremy Hajdenberg, born in 1975, an Investment O cer in Investor & Partner for Development (I&P), a social investment company dedicated to developing countries, especially in Africa, with a vocation to invest in micro-finance institutions and in medium size companies in partnership with their promoters and their management. Its available equity is €19 million in 2007

Andrej Machacek

Alternate Director

Prior to setting up Progression Capital Africa, Andrej Machacek worked as an Investment Manager at Grassroots Capital, managing the US$120m Global Microfinance Equity Fund since 2008. Andrej was a member of the investment committee and the board of the AfriCap Microfinance Investment Company during AfriCap's transition period between May '10 and Mar '11.

Before this, Andrej spent 2 years at a venture capital incubator rm, assisting entrepreneurs in refining their business models and in helping them achieve commercial scale. As a Vice President in Deutsche Bank's Global Markets division, Andrej spent 5 years working with the bank's Capital Markets, Leveraged Finance, Financial Sponsors and Mergers & Acquisitions departments, providing the bank's clients with traditional as well as structured equity and debt funding solutions through public as well as private capital markets and advising corporates on how to manage their foreign exchange, interest rate, commodity price and other balance sheet and P&L risk exposures.

Andrej obtained his Bachelor of Arts degree in Economics and Management from Balliol College, Oxford and an MBA from Harvard Business School. He is an Open Society

Patricia Kemirembe Katende

Company Secretary / Head, Legal

Patricia Kemirembe Katende has 10 years of professional experience in law and in-house legal counsel services. She is a Charted 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 a post graduate diploma in legal practice from the Law Development Centre, Kampala.

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

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

Open up a **Trust Young Savers Account** Now

- ***Trust Juniors Savers Account***

  Open up an affordable and secure saving account that enables parents/guardians to save for their children's needs and teach them the benefits of early savings.

- ***Teen Classic Savings Account***

  An affordable savings account for boys and girls aged 12-17. Allows every little deposit to enable you grow your savings bit by bit.

- ***Youth Progress Account***

  A convenient savings account for youth aged 18-24 years. Comes with attractive interest to grow your savings even further.

- ***Girl's Choice Account***

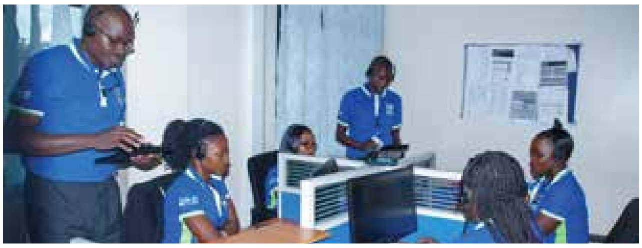
  An only girls savings account for girls aged 10-19 years. Account can be accessed by girls in and out of school. Dream big, save for a purpose and achieve great success.

Sustainability Report

Customer Focus

Call Centre
Through the call centre, the bank was able to comply with reporting requirement of the financial Consumer empowerment mechanism unit of Bank of Uganda and compulsory data update exercise which was initiated by the regulator. The call centre continues to support other functions in the Bank to ensure customer retention by attending to the queries of customers and ensuring tracking of complaints till they are resolved. In 2019, the bank was able to stay the dormancy rate to reasonable rates through the intervention of the call centre.

1. Email: **customercare@financetrust.co.ug**
2. Our social media pages -
   - **Facebook @FinanceTrustBankUg**
   - **Twitter@financetrust**
   - **LinkedIn @FinanceTrustBank**
   - **YouTubeFinance Trust Bank UG**
3. Toll-free line - **0800220500**
4. Whatsapp Number - **0751 932 900/ 0701 932 901**



Products and services Innovations

We know that our customers may have various needs and that is why our resolve for having a wide product range is high. In 2019, the bank engaged itself in extensive data mines, mystery shopping, product previews to further refine our product range. Following the feedback received from our customers on the Loan ku Simu product, the bank was able to further refine the product to increase the successful attempts.

School Pay
In 2019, the bank integrated on the School Pay system and this was greatly welcomed by the schools that bank with us. It is expected that this integration will ease reconciliation for the schools as well as improve our value proposition to the schools that bank with us

Agent Banking
Enhancements were made to the Agent banking platform to enable school fees payments with bank slips and the introduction of card less withdrawals at Agent locations. This card less withdraw is initiated through Trust Mobile- the bank's mobile banking platform that gives customers a One Time Password(OTP) that expires when unused. These services have enhanced security functionality to guard customers against fraud.

Trust Mobile
The bank in a bid to increase usage of the Trust mobile platform translated the menu into Luganda. It is also through Trust mobile that customers are able to initiate a withdraw on Agent Banking.

Deposit products

Trust Savers Accounts
Trust Savers Individual
Trust Savers Joint
Trust Savers Company
Trust Savers BIDCO
Mama's safe Individual
No Fee Individual Savings
Forex Savings Accounts

Current Accounts
Personal Current Accounts
Business Current account
Forex Current Accounts

Trust Young Savers Accounts

Trust Junior Savers
Girl's Choice Savings Account
Teen Classic Savings Account
Youth Progress Savings Ac

Trust Group Accounts

Trust Group Savers
No Fee Group Savings
Mama's safe Group
SACCO Savings
Investment clubs
VSLAs

Fixed Deposit Accounts

Other Savings Accounts

Staff Savings

Credit products

Business Loans

SME/Micro/Corporate Loans
Bank Overdraft
Renewable energy Loans
SACCOs and VSLA loans
Insurance Premium Loan
Women in Business Loan
Individual Personal Loans

Agriculture Loans

Agro Production Loans
Agro Processing Loans
Agro Marketing Loans
Agro Investment Loans
Women in Agriculture Loan

Consumer loans

School Fees Loan
Renewable Energy Loan
Salary Loans
SmartHome Loan

Asset Finance Loans

Land / other asset acquisition
Loan for non business
Motor vehicle loans
Asset Improvement Loan

Trust Mobile Loan / Loan Ku Simu

(Accessed via Trust Mobile)

Off balance sheet products

Bank Guarantee
Letters of Credit

Value Added Services

- Money transfer services (through Western Union, MoneyGram, worldremit, Xpress money, EFT, RTGS)
- Mobile money services (through MTN, Airtel, Msente)
- Utility bills collection (National Water,PAY TV, Umeme)
- NSSF collections, URA payments, KCCA collections
- School fees collections
- Bancassurance
- Mobile Banking Services

URA
Uganda Revenue Authority
DEVELOPING UGANDA TOGETHER

NSSF
a better life

NATIONAL WATER AND SEWERAGE CORPORATION

UMEME
Powering Uganda

WESTERN UNION WU
moving money for better

MoneyGram.
money transfer

XPRESS MONEY
GLOBAL MONEY TRANSFER

WorldRemit

Financial discipline has enabled Nansamba to succeed in business

Ms Jennifer Nansamba Ssentongo borrowed Shs250,000 in 1995 from Finance Trust Bank to start business. Currently she is one of the most successful businesspeople in Buikwe. She shares her story with ***Daily Monitor's Denis Edema***

Mrs Jennifer Nansamba Ssentongo.PHOTO BY DENIS EDEMA

Briefly tell us about yourself

I'm Ms Jennifer Nansamba, the proprietor of Middle-Income Parents Association found in Mbiko Kizungu Zone Njeru Central Division in Njeru Municipal Council in Buikwe District.

How long have you been banking with Finance Trust Bank?

I have been banking with Finance Trust Bank back since 1995. I came to know this bank through a friend who introduced me to the manager when I wanted some money. By then, I was hawking fried chicken at Shs500 a piece and wanted to expand my business.

It was not easy to secure the money in terms of a loan, however, when the bankers assessed my way of operating the business, I was given Shs250,000 that I needed. I was supposed to clear the loan in a period of one year but I cleared even before.

After clearing the loan in 1996, the bank manager recommended me to take another loan of Shs450,000.

I shared the money with my husband who deals in photography because I couldn't clear it alone. I continued with the same business and we were able to service the loan and we were able to ask for another loan worthy Shs1, 000,000. This enabled me to invest in second hand shoes.

The bank staff taught us customer care, how to retain customers, which contributed hugely to the growth of my business.

What is your experience in dealing with Finance Trust Bank?

I have learnt that when you are dealing with a bank, financial discipline is very important if your business is to grow.

What achievements have you registered so far?

I have achieved many progressive projects serving people in communities where these projects are operating. I have created jobs for many people, especially the youth.

I have established schools namely: MIPA Junior School in Nyenga, MIPA High School and MIPA Technical Institute,I have also acquired more than 130 acres of land.

As Uganda joins the rest of the world to celebrate Women's Day, what is your message to your fellow women?

Women should not wait for men to start income generating activities. Also, for one to prosper in business, patience and praying to God are a must.

Head Office

Finance Trust Bank Uganda, Head Office : Katwe Branch, P.O. Box 6972 Kampala, Uganda, Tel : +256 414 341275 / +256 414 255146 E-mail : customercare@financetrust.co.ug

FINANCE trust BANK

Putting Women First

Branch Relocation & Customer Engagement

At Finance Trust Bank, Customer Focus is one of our core values and so the Bank organized 10 Customer Engagements activities across the network to enable more interaction with customers outside the Banking Halls and also share with them the new developments in the Product and Service offering of the Bank. In addition, the bank was able to re-locate Mbale and Nansana branches to more spacious premises. Nansana branch was relocated from Plot 6003 to Plot 8538 opposite Nabweru Junction while Mbale branch was relocated to the ground floor-Masaba Complex located at Plot 23 Republic Street.

Partnerships

The Bank in partnership with Uganda Registration Services Bureau launched the first account on the Security Interest in Movable Property Registry System (SIMPRS) platform. This is a government initiative which allows micro, small and medium enterprises as well as individuals whose major constraint to economic growth is lack of affordable credit, to use their movable assets as collateral for loans. We know that a large number of women fall in the category of borrowers who use movalbe collateral so this partnership will enable the bank to serve more women

Corporate Social Responsibility

As part of the Bank's Corporate Social Responsibility, the bank runs several activities across the country and one of the key activities is that of furthering -financial literacy among women and youth predominantly

As part of Corporate Social Responsibility, the bank partnered with Nnabagereka Development Foundation to Sponsor Ekisaakaate Kya Nnabagereka for a period of three years (2018-2021). This partnership presented an opportunity to the bank to bring alive its key principles that guide the day to day operations of the bank through Ekisakaate's theme of "Obuntubulamu as a way of life".

For many years the bank has encouraged parents and guardians to cultivate a savings culture among the children and by so doing launched several savings products for children and youth aged 0 years to 24 years. We have seen several parents open savings accounts for their children.

The bank is committed to working with Her Royal Highness in furthering this very noble agenda of Ekisaakaate to mentor the children into responsible citizens that will benefit this country.

Finance Trust Bank Board Chairperson Dr, Evelyn Kahiigi and Executive Director, Annette Kiggundu together with the FTB Head of Business Mr. Percy Lubega having a light moment with HRH The Nnabagereka Of Buganda, Maama Sylvia Nagginda at the closing ceremony of Ekisaakaate Gatonnya held at St Joseph of Nazareth Secondary School Katende.

This partnership provides an opportunity to the youth through its theme

“Obuntubulamu starts with you”

Financial literacy with women inmates at luzira prision

As part of our annual women financial literacy programme, the bank continued to impart the skills of budgeting and financial planning to over 200 women inmates in Luzira Prison. This was done purposely to develop the women's financial skills and capabilities to manage life once they are released from prison.

Developing our People

At the end of 2019, the Bank had employed 706 employees. At Finance Trust Bank, we ensure that our people are fulfilled and always focused on doing business the right way. It's vital to keep our people informed about our business, to listen to their ideas and take action to improve.

During the year, the Bank ensured that talent acquisition is undertaken through a formal process of attracting, identifying and assessing skilled persons to achieve alignment of talent with the Banks broader business goals. This continues to be a fundamental activity of the Human Resources department and is an ongoing strategy to ensure skilled employees for business continuity in the future. The Bank continued to attract high caliber talent from the industry mainly due to employing best industry Human Resources practices.

Performance Management

Performance management constituted setting individual and team targets at the start of the year, which are aligned to the strategic goals of the Bank. It involved monthly performance reviews and continuous assessment to track progress, as well as developing the knowledge, skills and abilities of staff by way of refresher trainings. These, together with the performance improvement programs, provided a stable foundation on which the staff maximized their potential.

Training & Development

The training function ensured a systematic process where employees were instructed and taught matters of technical knowledge related to their jobs. At Finance Trust Bank, we do learning differently. Instead of providing our employees with hundreds of courses to choose from, we identify individual learning needs and offer tailored training programmes. In addition to face to-face training, we also offer our own online learning platform, again with specific interventions aimed at our core learning and development needs. We also do field visits and one on one session to ensure skilled and empowered workforce, with the right mind-set to succeed.

Development programs for supervisors and managers ensured that their strategic leadership skills are improved; enabling them to grow and develop within the business.

Staff Wellness & Team Building

Staff engagement programs such as monthly prayers, fitness classes and medical camps, continued to feature and contributed to a conducive working environment that motivated staff to give their best and achieve organizational success.

The 2019 Annual Banker's Sports Gala: the Bank emerged overall winner in table tennis game.

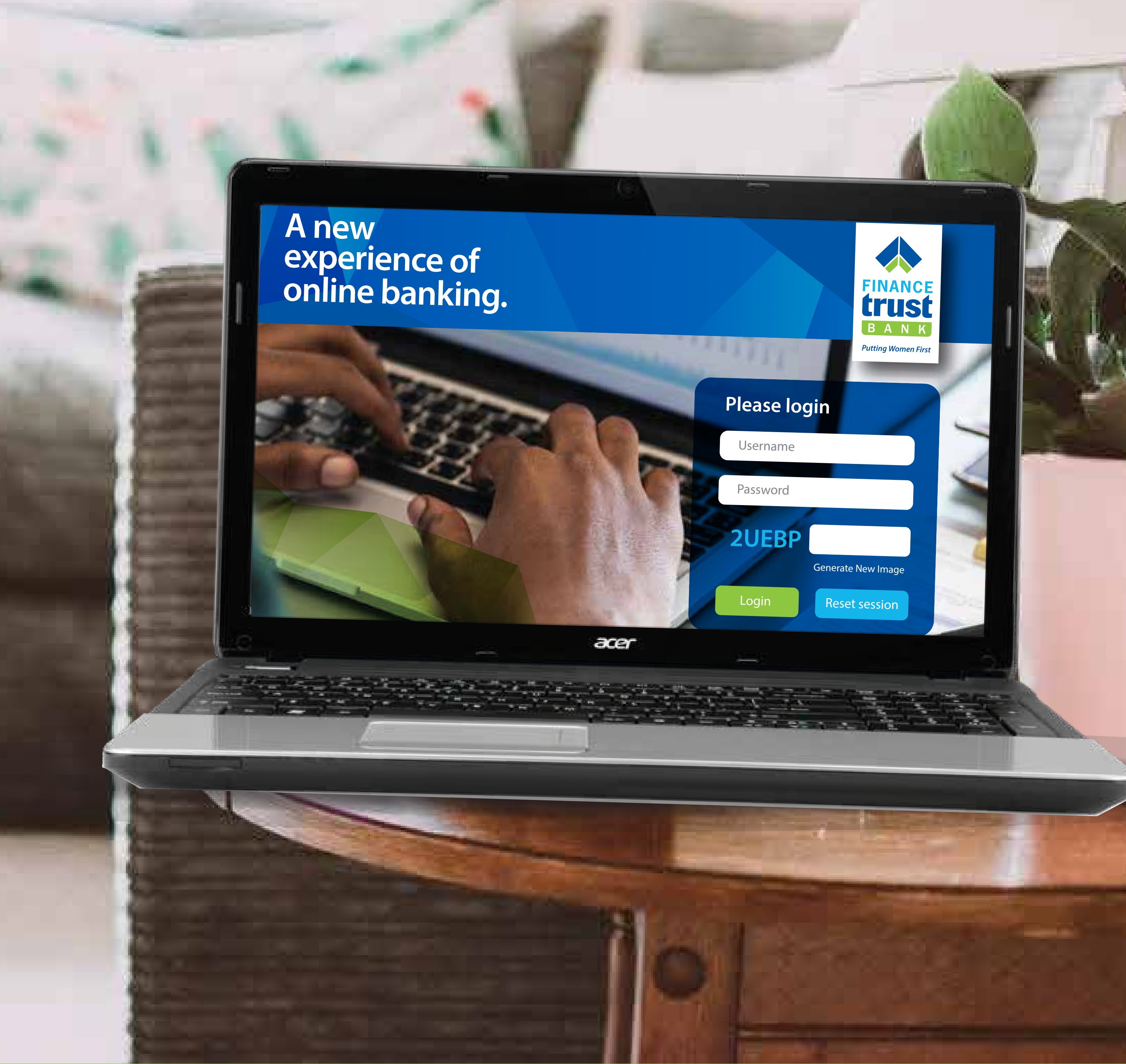
Fitness Classes: Head office and various Branches hold weekly sessions geared towards enhancing staff wellness and fitness.

Staff continued to be accommodated in the best hotels in the areas where the Bank operates and these have continued to ensure safety and good hygiene of staff during the course of duty.

Reward and Recognition Programs

Reward and recognition is top of mind at the Bank. An engaged employee wants to feel valued for their relative contribution to the Bank's business. The Bank has created a 'sense of worth' environment in various forms i.e. through a market based competitive compensation and merit awards to mention but a few. Incentives and bonuses are awarded based on both team and individual contribution. Annual recognition is also done during the staff End of Year.

Take total control of banking at your **Comfort.**



For more details, please call our toll free number **0800220500** or Visit our website: **www.financetrust.co.ug**

TABLE OF CONTENTS

Financial **highlights**

The bank registered considerable growth across all the key financial metrics.
Below are some of the key financial highlights for the year ended 31st December 2019.

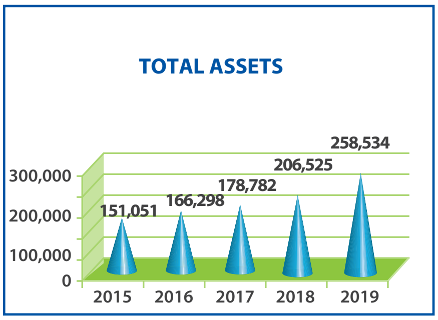
HIGHLIGHTS FOR THE YEAR 2019

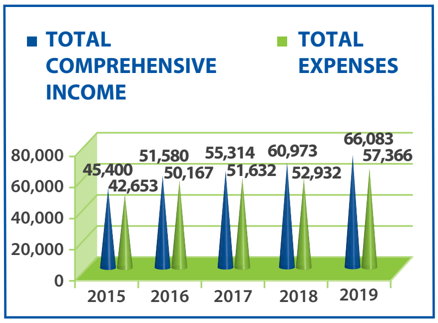
After tax profits grew by
4%
from
5.85bn in 2018 to shs
6.1bn in 2019

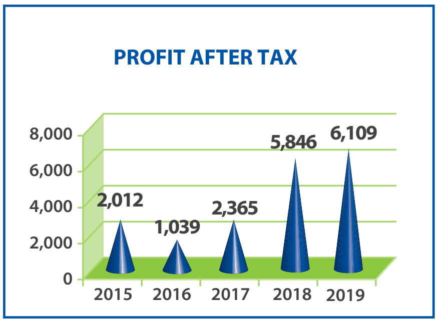
Total assets grew by
25%
from
206bn in 2018 to shs
258bn in 2019

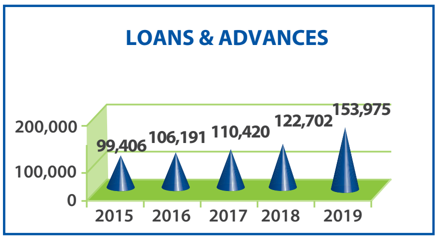
Customer deposits grew by
23.7%
from
124.3bn in 2018 to shs
153.8bn in 2019

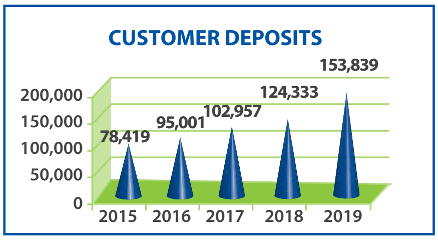
Net loans & advances increased by
25.5%
from
122.7bn in 2018 to shs
153.9bn in 2019

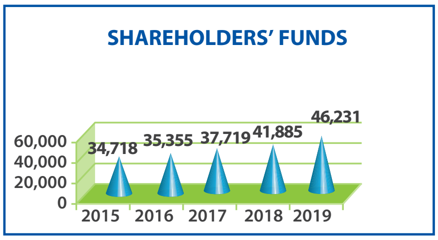












Corporate Information

Directors

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

Dr. Evelyn Kigozi Kahiigi*	Chairperson
Mrs Annet Nakawunde Mulindwa*	Managing Director
Mrs. Annette Kiggundu Nansubuga*	Executive Director
Mrs. Grace Namulinda Aliakai*	Non-Executive Director
Mr. Kirunda Robert*	Non-Executive Director
Mrs. 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
Mrs. Lydia Koros***	Non-Executive Director
Mr. Jeremy Hadjdenberg****	Non-Executive Director – Alternate to Mr. Jean-Louis de Montesquiou
Mr. David Ssenoga*	Non-Executive Director – Alternate to Mr. Tor G. Gull
Mr. Andrej Machacek***	Non-Executive Director – Alternate to Mrs. Lydia Koros
Dr. Mr. Albert Richard Otete*	Non-Executive Director
Mr. Kevin Kamemba***	Non-Executive Director- Alternate to Loic De Cannie're

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

Auditors

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

Registered Office

FINANCE TRUST BANK LIMITED
Block 6, Plot 121 & 115 Katwe
P.O. Box 6972
Kampala

Branches

HEAD OFFICE
CENTRAL
ENTEBBE
MUKONO
LUGAZI
KAYUNGA
MASAKA
KATWE
NAKIVUBO
KALERWE
OWINO
KAMPALA ROAD

KIKUUBO
LWENGO
GOMBA
JINJA
IGANGA
KAMULI
BUGIRI
BUSIA
TORORO
MBALE
KUMI
SOROTI

NTUNGAMO
KAMWENGE
KABAROLE
PALLISA
ARUA
KITINTALE
KALANGALA
NATEETE
NANSANA
KAPCHORWA
MBARARA
ISHAKA

KIJURA – closed as at 30th April 2019

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

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of Finance Trust Bank Limited ("the Bank").

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)

Results and Dividend

The profit for the year of Shs 6,110 million (2018: Shs 5,848 million) has been taken to retained earnings. The directors recommend payment of dividends for the year ended 31 December 2019 of Shs 1,222 million (2018: Shs 1,755 Million).

External Auditor

The auditors KPMG, were appointed during the year in accordance with section 167 (2) of the Companies Act of Uganda, and being eligible for reappointment, they have expressed their willingness to continue in office.

Financial statements

The financial Statements were approved by the Board of Directors on 27 March 2020

By order of the Board

Company Secretary
27 April 2020

Statement of Director's Responsibilities

The Bank's directors are responsible for the preparation and fair presentation of the financial statements of Finance Trust Bank Limited set out on pages 9 to 70, comprising the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, the Companies Act of Uganda and Financial Institutions Act 2004 (as amended 2016).

The Bank's directors are also responsible for such internal control as they determine 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 made an assessment of the Bank's ability to continue as a going concern and have no reason to believe that the business will not be a going concern the next twelve months from the date of this statement.

The auditors are responsible for reporting on whether the financial statements give a true and fair view in accordance with the International Financial Reporting Standards, the Financial Institutions Act 2004 (as amended 2016) and Companies Act of Uganda.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on
27 March 2020.

Chairperson Board of Directors

27 April 2020

Director

Report of the Independent Auditor to the members of Finance Trust Uganda Limited

Report on the Audit of the Financial Statements

Our opinion

We have audited the financial statements of Finance Trust Bank Limited ("the Bank"), set out on pages 9 to 70 which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Finance Trust Bank Limited as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act 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' Code of Ethics for professional Accountants (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.

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- Assessment of the Bank's loans and advances for impairment	How our audit addressed the key audit matter
Impairment of loans and advances to customers 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 31 December 2019, the Bank's loans and advances to customers amounted to Ushs153.9 billion, representing 60% of total assets, with total expected credit loss ("ECL") allowances of Ushs 1.7 billion recognized. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's application of IFRS 9 are: • Economic scenarios - IFRS 9 requires the Bank to measure Expected Credit Loss (ECL) on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them. • 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. • Model estimations - inherently judgmental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD"), and exposures at default ("EAD").The PD models used in the portfolios are the key drivers of the Bank's ECL results and are therefore the most significant judgmental	Our audit procedures in this area included the following, among others: • We performed end to end process walkthroughs to identify the key system applications and controls used in the ECL processes and tested the operating effectiveness of these controls. • We involved our internal financial risk modelling specialists in evaluating the appropriateness of the Bank's IFRS 9 impairment methodologies. • We assessed the appropriateness of the probability of default, loss given default and exposure at default assumptions. • We involved our internal economic specialists to assess the appropriateness of the Bank's methodology for determining the economic scenarios used, forward looking information and historical probability of default recomputation. • We carried out substantive procedures over the impairment balance including the following: — sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts and PD assumptions applied and; — testing key aspects of the Bank's SICR determinations; — testing the completeness of financial instruments on which the ECL is computed; — testing the appropriateness of managements assumption of determining the exposure at default; — recomputing the ECL using management's assumptions to determine the consistence of the methodology adopted by management. • We assessed whether the disclosures appropriately disclose the uncertainty and key judgements applied when determining the expected credit losses. • We also assessed the reasonableness of the credit risk analysis that is disclosed in addition to assessing whether the disclosure of the key judgements and assumptions made was sufficiently clear.

Other information

The directors are responsible for the other information. The other information comprises the *Corporate Information, Directors' report* and *Statement of Directors' Responsibilities* 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 the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Uganda Companies Act of Uganda 2012 and the Financial Institutions Act 2004 as amended by the Financial Institutions (Amendment) Act, 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.

The directors are responsible for overseeing the Bank's financial reporting process.

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 International Standards on Auditing (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

As required by the Uganda Companies Act 2012, we report to you based on our audit, that:
i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of 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 (Balance sheet) and statement of profit or loss and other comprehensive income (profit or loss) are in agreement with the books of account.
The engagement partner responsible for the audit resulting in this independent auditor`s report is CPA Stephen Ineget - P0401.

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
PO Box 3509
Kampala Uganda

27 April 2020

Statement of Comprehensive Income

	Notes	2019 Shs 000	2018 Shs 000
Interest income	8	44,279,085	40,023,635
Interest expense	9	(9,978,929)	(8,263,179)
Net interest income		**34,300,156**	**31,760,456**
Fees and commission income	10	20,147,402	19,146,340
Net fee and commission		**54,447,558**	**50,906,796**
Other operating income	12	1,497,601	1,682,966
Net foreign exchange gains	11	158,749	120,368
Total operating income		**56,103,908**	**52,710,130**
Impairment losses on financial assets	20 (b)	(686,527)	(2,479,907)
Operating expenses	13	(46,700,323)	(42,189,369)
Profit before income tax		**8,717,058**	**8,040,854**
Income tax expense	15	(2,607,523)	(2,192,317)
Profit for the year		**6,109,535**	**5,848,537**
Other comprehensive income		-	(2,217)
Total comprehensive income for the year		**6,109,535**	**5,846,320**
Earnings per share - basic and diluted (Shs per share)	35	**0.220**	**0.210**

The notes set out on pages 58 to 102 form an integral part of these financial statements

Statement of Financial Position

AS AT 31 DECEMBER 2019

	Notes	2019 Shs 000	2018 Shs 000
ASSETS			
Cash and balances with Bank of Uganda	16	35,016,468	26,099,304
Deposits and placements with other Banks	17	34,756,929	15,813,745
Government securities	18	6,975,297	24,318,835
Net loans and advances to customers	20(a)	153,975,205	122,702,419
Other assets	19	5,033,316	4,788,937
Current income tax recoverable	15	26,836	150,973
Property and equipment	21	9,301,761	8,662,507
Right of Use asset	34 (i)	10,838,683	-
Operating lease prepayments	22	-	1,252,605
Intangible assets	23	2,609,177	2,735,821
Total assets		**258,533,672**	**206,525,146**
EQUITY AND LIABILITIES			
Liabilities			
Customer deposits	24	153,838,925	124,333,205
Deposits and balances due to other banking institutions	25	25,365,831	15,391,303
Borrowings	26	13,007,355	15,405,937
Lease liability	34 (j)	10,716,224	421,217
Deferred tax Liability	28	401,077	562,011
Other liabilities	27	8,973,617	8,535,805
Total liabilities		**212,303,029**	**164,649,478**
Equity			
Share capital	29	27,785,402	27,785,402
Regulatory credit risk reserve	20 (c)	1,654,570	103,311
Retained earnings	33	15,568,765	12,232,395
Proposed dividends	39	1,221,906	1,754,560
Total equity		46,230,643	41,875,668
Total equity and liabilities		**258,533,672**	**206,525,146**

The financial statements on pages 46 to 102 were approved for issue by the Board of Directors on 2020 and signed on its behalf by:

Chairperson Board of Directors 16 April 2019	Director	Managing Director	Secretary

The notes set out on pages 58 to 102 form an integral part of these financial statements.

Statement of Changes in Equity

	Notes	Share capital Shs 000	Regulatory reserve Shs 000	Retained earnings Shs 000	Proposed dividends Shs 000	Availablefor sale fairvalue reserve Shs 000	Total Shs 000
Year ended 31 December 2018							
At 1 January 2018		**27,785,402**	**1,097,788**	**7,176,267**	**709,667**	**2,217**	**36,771,341**
Comprehensive income:							
Profit for the year		-	-	5,848,537	-	-	5,848,537
Other comprehensive income		-	-	2,217	-	**(2,217)**	-
Total comprehensive income		-	-	5,850,754	-	**(2,217)**	5,848,537
Transactions with owners:				(34,543)	(700,145)		(734,688)
Transfer from regulatory reserve		-	(994,477)	994,477	-	-	-
Transfer of dividends payable to other liabilities		-	-		(9,522)	-	(9,522)
Dividends Proposed				(1,754,560)	1,754,560	-	-
At 31 December 2018		**27,785,402**	**103,311**	**12,232,395**	**1,754,560**	-	**41,875,668**
Year ended 31 December 2019							
At 1 January 2019	**29**	**27,785,402**	**103,311**	**12,232,395**	**1,754,560**		**41,875,668**
Profit for the year		-	-	6,109,535	-	-	6,109,535
Total comprehensive income		-	-	**6,109,535**	-	-	**6,109,535**
Transactions with owners:		-	-		-		-
Transfer from regulatory reserve			1,551,259	(1,551,259)	-	-	-
Transfer of dividends payable to other liabilities		-	-		(37,247)	-	(37,247)
Dividends paid					(1,717,313)	-	(1,717,313)
Dividends proposed	39	-		(1,221,906)	1,221,906	-	-
At 31 December 2019		**27,785,402**	**1,654,570**	**15,568,765**	**1,221,906**	-	**46,230,643**

The notes set out on pages 58 to 102 form an integral part of these financial statements.

Statement of Cashflows

	Notes	2019 Shs 000	2018 Shs 000
Cash flows from operating activities			
Interest receipts		43,608,396	39,461,413
Interest payments on deposits		(6,424,475)	(5,245,521)
Interest expense on borrowings		(2,160,201)	(2,851,830)
Interest expense on leases		(1,094,285)	-
Amortisation of operating grants		(503,965)	(659,106)
Net fee and commission receipts		20,346,271	19,117,987
Other income received		448,559	341,607
Recoveries from loans previously written off		1,027,525	1,211,061
Payments to employees and suppliers		(43,834,027)	(40,278,269)
Income tax paid		(2,644,321)	(2,253,834)
Cash flows from operating activities before changes in operating assets and liabilities		8,769,477	8,843,508
Changes in operating assets and liabilities:			
— loans and advances		(31,272,787)	(12,282,669)
— other assets		(244,381)	1,989,227
— operating lease prepayments		1,252,605	(97,486)
— customer deposits		29,505,720	21,376,702
— deposits due to other banks		9,974,528	11,026,203
— other liabilities		437,814	(1,188,336)
— government securities maturing beyond 90 days		12,006,930	(15,140,954)
Net cash generated from operating activities		30,429,906	14,526,195
Cash flows from investing activities			
Increase in placements with other banks		(19,540,191)	(9,947,883)
Purchase of property and equipment		(3,150,537)	(2,052,709)
Purchase of intangible assets		(559,089)	(143,652)
Proceeds from sale of property and equipment		48,414	16,236
Net cash utilized in investing activities		(23,201,403)	(12,128,008)
Cash flows from financing activities			
Receipts for borrowings		3,050,000	-
Repayments for borrowings		(5,371,023)	(7,791,545)
Lease payments		(1,530,293)	(232,116)
Receipts for operating grants		476,038	271,316
Receipts for capital grants		-	130,122
Dividends paid to shareholders		(1,717,313)	(700,145)
Net cash utilized from financing activities		(5,092,591)	(8,322,368)
Net increase/ (decrease) in cash and cash equivalents		2,135,912	(5,924,181)
Cash and cash equivalents at start of year		38,554,976	44,479,157
Cash and cash equivalents at end of year	31	40,690,888	38,554,976

The accounting policies and notes on pages 58 to 102 form an integral part of these financial statements

Notes

1. Reporting Entity

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

Block 6, Plot 121 & 115 Katwe
PO Box 6972 Kampala

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

2. Basis of Accounting and Measurement

The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRS). They were authorised for issue by the Bank's board of directors on 27th March 2020. Details of the Bank's accounting policies are included in Note 4 and 5.

The financial statements are presented in Uganda Shillings (Ushs), which is the Bank's functional currency. All amounts have been rounded to the nearest million (Ushs 000), unless otherwise indicated.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies included in Note 4 and 5.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in 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 5: establishing the criteria for determining whether credit risk on the financial asset 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 uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes.

Note 5: 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.

Note 5: measurement of the fair value of financial instruments with significant unobservable inputs.

Note 5: recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

4. Changes in Significant Accounting Policies

The Bank initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

IFRS 16, 'Leases'

The Bank has applied IFRS 16 using the modified retrospective approach, with no effect of initial application recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated. It is presented as previously reported under IAS 17 and related interpretations. The details of changes in accounting policies are disclosed below. Additionally the disclosures requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a Lease

Previously the Bank determined at contract inception whether an arrangement is or contains a lease under IAS 17 and IFRIC 4 Determining whether an arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease , as explained in Note 34
On transition to IFRS 16, the bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 to contracts that were previously identified as operating leases

As a Lessee

As a lessee, the Bank leases some branch and office premises. The bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Bank recognises Right-of-Use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

Further, the Bank has entered into new leases during the year ended 31 December 2019, other than leases of low-value Office equipment. At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of branches and office premises the Bank has elected not to separate non lease components and account for the lease and associated non-lease components as a single lease component. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019 .A Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Bank used a number of practical measures when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the bank:

- Relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- Did not recognise Right-of-Use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Did not recognise Right-of-Use assets and liabilities for leases of low-value assets (i.e. Office equipment);
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- Used hindsight when determining the lease term.

As a Lessor

The Bank doesn't lease out any property and equipment and as such is not required to make any adjustments on transition to IFRS 16 for leases which it acts as a lessor.

Impact on Financial Statements

On transition to IFRS 16, the Bank recognised additional Right of Use assets and additional Lease Liabilities. The impact of transition is summarised as below;

1 January 2019	Shs 000'
Operation lease commitments as at 31 December 2018	2,826,614
Finance lease liability as at 31 December 2018	421,217
Discounted using incremtental borrowing rate 12.16% at 1 January 2019	9,963,828
Lease liability as at 1 January 2019	10,385,045

When measuring lease liabilities for leases that were classified as operating leases, the bank discounted lease payments using its incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 12.16%

1 January 2019	Shs 000'
Lease liability	9,963,828
Prepayments	948,528
Right of Use Asset (ROU)	10,912,356

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

(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).

The previous categories of held to maturity, loans and receivables and available for sale under IAS 39 have been replaced.

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
• it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Fair Value through Other Comprehensive Income (FVOCI)

All 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 31 December 2019, the Bank did not have financial assets measured at FVOCI.

As at 31 December 2019, 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 or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

As at 31 December 2019, the Bank did not have any financial assets 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 groups 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 a forbearance policy which applies for both micro and 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 Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group 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 FVTPL:

• 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 group 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 FVTPL

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.

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 classed 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.

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 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 two consecutive monthly instalments. Migration from Stage 2 to Stage 1 is subject to monitoring of the loan's monthly performance for a period of 60 days and occurs after two consecutive monthly repayments. Migration from Stage 3 to Stage 1 is not allowed.

Probability of default (PD)

Loans originating from January 2014 going forward have been segmented into Performing (Normal and Watch categories) and Non-Performing (Doubtful, Substandard and Loss categories) and tracked in cohorts based on the month of origination. The first instance of default has then been tracked based on the health status of the accounts originating in each month over the model. The outstanding balances of the respective cohorts have also been tracked up to the first instance of default. The performing and non-performing exposures have then been tracked on an annual basis and PDs computed for the cohorts based on their month of origination. The PDs have been computed as the sum of the exposure of all non-performing accounts for each cohort at the end of a 12 month period divided by of the sum of the exposure of the non performing accounts for each cohort at the end of the same 12 month period. The average PDs for each year have been obtained as an average of the PDs for all cohorts in each year. .

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

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 groups its Financial assets into 2 broad categories of Micro and SME. The SME portfolio includes commercial (Shs 5m and above) & consumer facilities advanced in amounts while the micro loan portfolio includes all loans below Shs 5m (excluding consumer loans).

Days past due			
Bank 's rating	**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 or considered uncollectible	3

Expected credit losses (ECL) by segment as at 31 December 2019:

	Stage 1 - 12 months ECL (Shs '000)	Stage 2 – Lifetime ECL (Shs '000)	Stage 3 – Lifetime ECL (Shs '000)	Total (Shs '000)
SME	122,994,927	4,850,634	4,450,015	**132,295,576**
Micro	23,404,949	-	-	**23,404,949**
Gross Carrying amount	**146,399,876**	**4,850,634**	**4,450,015**	**155,700,525**
Loss allowance	(912,891)	(103,478)	(708,951)	(1,725,320)
Net carrying amount	**145,486,985**	**4,747,156**	**3,741,064**	**153,975,205**

Expected credit losses (ECL) by segment as at 31 December 2018:

	Stage 1 - 12 months ECL (Shs '000)	Stage 2 – Lifetime ECL (Shs '000)	Stage 3 – Lifetime ECL (Shs '000)	Total (Shs '000)
SME	99,862,314	3,329,970	2,687,406	**105,879,690**
Micro	18,473,642	590,155	1,114,581	**20,178,378**
Gross Carrying amount	**118,335,956**	**3,920,125**	**3,801,987**	**126,058,068**
Loss allowance	(1,098,635)	(37,304)	(2,219,710)	(3,355,649)
Net carrying amount	**117,237,321**	**3,882,821**	**1,582,277**	**122,702,419**

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 2019 has been used to determine the LGD. The data has been segmented by product to capture the unique characteristics of each segment.

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 IFRS 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 2019, the Bank did not have any financial assets measured at fair value.

(e) Derivative financial instruments

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

(f) 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.

(g) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to customers or placements with other banks, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(h) 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 group 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.

(i) Property and equipment

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

Freehold land is not depreciated 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 grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

(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 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 as finance leases and in line with IFRS 16. 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

The Bank recognizes deferred tax assets/ liabilities every when there exists 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 2019, the Bank recognised deferred tax liability of Shs 401Million in respect of temporary differences arising out of variations in the carrying amounts of depreciable assets and their tax bases. The temporary differences harmonize either at full utilization or disposal of the subject assets.

(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 a forward-looking scenarios for each type of product / market and associated ECL
• Establishing groups of similar assets for the purposes of measuring ECL.

The expected credit loss allowance on loans and advances are disclosed in more detail in Notes 20.

6 . Standards issued but not yet effective

As at the date of authorization of the financial statements of Finance Trust Bank Limited for the year ended31 December 2019, the following Standards and Interpretations were in issue but not yet effective:

Standard/Interpretation		Date issued by IASB	Effective date Periods beginning on or after
Conceptual Framework amendments	*Amendments to References to Conceptual Framework in IFRS Standards*	March 2018	1 January 2020
IFRS 3 amendment	*Definition of a Business*	October 2018	1 January 2020
IAS 1 and 8	*Amendments to the definition of Material*	October 2018	1 January 2020
IFRS 9, IAS 39 and IFRS 7	*Amendments to interest rate benchmark reform*	August 2019	1 January 2020
IFRS 17	*Insurance Contracts*	May 2017	1 January 2021
IFRS 10 and IAS 28 amendment	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	September 2014	Deferred indefinitely

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

a) Amendments to References to Conceptual Framework in IFRS Standards

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definitions of an asset and a liability and guidance supporting these definitions; and
- Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

The amendment is not expected to have a significant impact on the financial statements of the Bank.

b) Definition of a Business (Amendments to IFRS 3)

Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business.

The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3. In October 2018 the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments:

Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs.

- Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The amendment is not expected to have a significant impact on the financial statements of the Bank.

c) Definition of Material (Amendments to IAS 1 and IAS 8)

The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change – the refinements are not intended to alter the concept of materiality.

The amendment is not expected to have a significant impact on the financial statements of the Bank.

d) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.
The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform. The amendments are effective from 1 January 2020. Early application is permitted.

The amendment is not expected to have a significant impact on the financial statements of the Bank.

e) IFRS 17 Insurance Contracts

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

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 1 January 2021. Early adoption is permitted.

The standard is not expected to have any impact on the financial statements of the Bank.

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

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

The IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.
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 recognises the full gain on the loss of control. But under the standard on associates and JVs, the parent recognises the gain only to the extent of unrelated investors' interests in the associate or JV.

In either case, the loss is recognised 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 amendment is not expected to have any impact on the financial statements of the Bank.

7. Financial risk management

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

Risk management is carried out by the Treasury department under policies approved by the Board of Directors. 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.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised in the credit risk management team 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. Clients of the Bank are segmented into four rating classes.

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

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

(ii) Risk limit control and mitigation policies

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

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.
Some other specific control and mitigation measures are outlined below:

(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.

The following table sets out the principal types of collateral held against different types of financial assets.

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.

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

Credit risk exposures relating to on-balance sheet assets:	2019 Shs 000	2018 Shs 000
Placements with other banks (Note 17)	34,756,929	15,813,745
Loans and advances to customers (Note 20(a))	153,975,205	122,702,419
Government securities (Note 18)	6,975,297	24,318,835
Other assets (Note 19)	5,033,316	4,788,937
	200,740,747	**167,623,936**
Credit risk exposures relating to off-balance sheet items:		
Guarantee and performance bonds	167,250	41,500
Commitments to lend	922,199	921,478
Total exposure	**201,830,196**	**168,586,914**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2019, 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, 76.2% of the total maximum exposure is derived from loans and advances to customers and 3.5% 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 loan and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans;
- 94% 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.

(iv) Loans and advances

	2019 Shs 000	2018 Shs 000
Neither past due nor impaired	146,399,876	118,335,955
Past due but not impaired	4,850,634	3,920,125
Impaired	4,450,015	3,801,988
Gross	155,700,525	126,058,068
Less: allowance for impairment (Note 20 (a))	(1,725,320)	(3,355,649)
Net amount	**153,975,205**	**122,702,419**

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 was as below:

	2019 Shs 000	2018 Shs 000
Stage 1	146,399,876	118,335,955
Stage 2	4,850,634	3,920,125
Stage 3	4,450,015	3,801,988
	155,700,525	**126,058,068**

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

	2019 Ush 000				
	Stage 1	Stage 2	Stage 3	POCI	Total
Normal	146,399,876	1,056,131	33,836	-	147,489,843
Watch	-	3,794,503	416,193	-	4,210,696
Substandard	-	-	1,544,745	-	1,544,745
Doubtful	-	-	1,115,574	-	1,115,574
Loss	-	-	1,339667	-	1,339667
	146,399,876	**4,850,634**	**4,450,015**	-	**155,700,525**
Loss allowance	(912,891)	(103,478)	(708,951)	-	(1,725,320)
Carrying amount	**145,486,985**	**4,747,156**	**3,741,064**	-	**153,975,205**

	2018 Ush 000				
	Stage 1	Stage 2	Stage 3	POCI	Total
Normal	118,335,955	-	-	-	118,335,955
Watch	-	3,920,125	-	-	3,920,125
Substandard	-	-	930,567	-	930,567
Doubtful	-	-	1,636,764	-	1,636,764
Loss	-	-	1,234,656	-	1,234,656
	118,335,955	**3,920,125**	**3,801,987**	-	**126,058,067**
Loss allowance	(1,098,635)	(37,304)	(2,219,710)	-	(3,355,649)
Carrying amount	**117,237,320**	**3,882,821**	**1,582,277**	-	**122,702,418**

Cash and Bank of Uganda Balances		2019 Ush 000		
	Stage 1	Stage 2	Stage 3	Total
Normal	35,050,818	-	-	35,050,818
Loss Allowance	(34,350)	-	-	(34,350)
Carrying amount	**35,016,468**	**-**	**-**	**35,016,468**

		2018 Ush 000		
	Stage 1	Stage 2	Stage 3	Total
Normal	26,114,287	-	-	26,114,287
Loss Allowance	(14,983)	-	-	(14,983)
Carrying amount	**26,099,304**	**-**	**-**	**26,099,304**

Balances with Other Bank		2019 Ush 000		
	Stage 1	Stage 2	Stage 3	Total
Normal	34,756,675	-	-	34,756,675
Loss Allowance	(34,096)	-	-	(34,096)
Carrying amount	**34,722,579**			**34,722,579**

		2018 Ush 000		
	Stage 1	Stage 2	Stage 3	Total
Normal	15,836,232	-	-	15,836,232
Loss Allowance	(22,487)	-	-	(22,487)
Carrying amount	**15,813,745**	**-**	**-**	**15,813,745**

Investment Security at amortized cost		2019 Ush 000		
	Stage 1	Stage 2	Stage 3	Total
Normal	6,983,277	-	-	6,983,277
Loss Allowance	(7,980)	-	-	(7,980)
Carrying amount	**6,975,297**	**-**	**-**	**6,975,297**

		2018 Ush 000		
	Stage 1	Stage 2	Stage 3	Total
Normal	24,353,417	-	-	24,353,417
Loss Allowance	(34,582)	-	-	(34,582)
Carrying amount	**24,318835**	**-**	**-**	**24,318835**

Cash and cash equivalents

The Bank held cash and cash equivalents of Ushs 76.75biillion at 31 December 2019 (2018: Ushs 66.231billion). The cash and cash equivalents are held with central bank of Uganda and financial institution counterparties that are rated at least B based on S&P's ratings.

Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of 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	31-Dec-19	31-Dec-18	Principal type of collateral held
		Ushs 000	Ushs 000	
Balances with Bank of Uganda	16	17,146,795	10,551,722	
Business Loans	20	68,485,094	56,708,844	Legal mortgage (Title)
Agriculture Loans	20	47,447,905	36,142,792	Legal Mortgage (Title)
Consumer loans	20	36,365,771	29,750,983	
Asset Financing	20	2,999,066	3,206,352	Chattels/Log Books
Loans Others	20	402,689	249,096	
Other assets excluding prepayments	19	3,170,831	2,309,669	

Loans and advances to customers

The bank extends credit to its customers through five major products i.e. Business loans, Agricultural, Asset financing, Consumer loans and mobile phone loans and 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 and Marketable chattels.

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 2019, the net carrying amount of credit-impaired loans and advances to customers amounted to Ushs 4.3 billion (2018: Ushs 1.58 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Ushs 8.5 billion (2018: Ushs 2.81billion). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

ii. Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment
See accounting policy in Note 5.

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. Restructuring is most commonly applied to term loans – in particular, customer finance loans.

Repossessed collateral

During 2019, 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. Sources of liquidity are regularly reviewed by a separate team in the Treasury department to maintain a wide diversification by provider, product and term.

In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis.

The table below presents the undiscounted cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date and from financial assets by expected maturity dates.

At 31 December 2018	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	35,016,468	-	-	-	-	35,016,468
Placements & Deposits with other banks	8,674,420	11,100,00	14,982,509	-	-	34,756,929
Government securities	2,00,000	-	4,975,297	_	-	6,975,297
Loans and advances to customers	8,878,839	7,823,168	35,587,947	101,685,25	-	153,975,205
Other receivables	-	-	-	1	-	2,377,117
Total financial assets	**54,569,727**	**18,923,168**	**55,545,753**	2,377,117	-	**233,101,016**
Financial liabilities				**104,062,36**		
Customer deposits	8,696,690	9,939,074	37,271,527	**8**	-	153,838,925
Deposits and balances due to banking institutions	3,147,580	3,691,894	18,526,357		-	25,365,831
Borrowed funds	628,929	250,696	2,700,512	97,931,634	-	13,007,355
Lease liability	518,149	206,538	2,224,849	-	-	10,716,224
other liabilities	-	-	-	8,973,617	-	8,973,617
Total financial liabilities	**12,991,348**	**14,088,202**	**60,723,237**	**124,099,165**	-	**211,901,952**
Off Balance Sheet Items						
Guarantee and performance bonds	54,203	1,485	33,048	15,964	62,550	**167,250**
Commitments to lend	922,199	-	-	-	-	**922,199**
Total off balance sheet item	**976,402**	**1,485**	**33,048**	**15,964**	**62,550**	**1,089,449**
Net liquidity gap At 31 December 2018	**40,601,977**	**4,833,481**	**(5,210,534)**	**(20,052,761)**	**(62,550)**	**(20,109,615)**

At 31 December 2018	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	26,099,304	-	-	-	-	**26,099,304**
Placements & Deposits with other banks	8,349,013	2,019,658	5,445,074	-	-	**15,813,745**
Government securities	3,955,032	6,095,384	10,106,971	4,161,448	-	**24,318,835**
Loans and advances to customers	8,786,082	7,500,504	34,788,340	71,627,493	-	**122,702,419**
Other receivables	-	-	-	2,048,703	-	**2,048,703**
Total financial assets	**47,189,431**	**15,615,546**	**50,340,385**	**77,837,644**	-	**190,983,006**
Financial liabilities						
Customer deposits	6,688,857	7,644,408	28,666,529	81,333,411	-	**124,333,205**
Deposits and balances due to banking institutions	3,039,871	879,220	11,471,654	558	-	**15,391,303**
Borrowed funds	184,170	1,152,657	5,233,557	8,835,554	-	**15,405,938**
Other liability	-	-	-		-	**8,535,805**
Lease liability	5,035	31,515	143,092	241,575	-	**421,217**
Total financial liabilities	**9,917,933**	**9,707,800**	**45,514,832**	**98,946,903**	-	**164,087,468**
Off Balance Sheet Items						
Guarantee and performance bonds	6,500	-	10,000	22,000	3,000	**41,500**
Commitments to lend	921,478	-	-	-	-	**921,478**
Total off balance sheet item	**927,978**	-	**10,000**	**22,000**	**3,000**	**962,978**
Net liquidity gap At 31 December 2018	**36,343,520**	**5,907,746**	**4,815,553**	**(21,131,259)**	**(3,000)**	**(25,932,560)**

(c) Market risk

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

Currency risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2019 and 2018. During the reporting period, the Bank only traded in USD and the financial instruments held as at 31 December 2019 and 2018 are included in the table below.

USD balances	2019 Shs 000	Shs 000
At 31 December 2019 **Assets**		
Cash and balances with Central Bank	1,478,275	1,487,520
Deposits and balances due from other banking institutions	494,397	262,045
Loans and advances	-	-
Other financial assets	-	-
Total assets	**1,972,672**	**1,749,565**
Liabilities		
Customer deposits	**443,342**	**436,511**
Deposits and balances due to banking institutions	-	-
Other financial liabilities	-	-
Total liabilities	**443,342**	**436,511**
Net on-balance sheet position	**1,529,330**	**1,313,054**
Net off-balance sheet position	-	-
Overall open position **As at 31 December 2019**	**1,529,330**	**1,313,054**

At 31 December 2019, 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 Shs 1,529 million (2018: Shs 1,313 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly. The Bank is managing interest rate risk by gap analysis.

Gap Analysis

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

In order to evaluate the earnings exposure, interest Rate Sensitive Assets (RSA) in each time band are netted off against the interest Rate Sensitive Liabilities (RSL) to produce a repricing gap for that time band. A positive gap indicates that the Bank has more RSA 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 2019, 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 1.531 billion (2018: Shs 3.15 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.

At 31 December 2019	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	-	-	-	-	35,016,468	**35,016,468**
Placements & Deposits with other banks	7,000,000	11,100,000	14,982,509	-	1,674,420	**34,756,929**
Government securities	2,000,000	-	4,975,297	-	-	**6,975,297**
Loans and advances to customers	8,878,839	7,823,168	35,587,947	101,685,251	-	**153,975,205**
Other assets	-	-	-	-	5,033,316	**5,033,316**
Current income tax recoverable	-	-	-	-	26,836	**26,836**
Property and equipment	-	-	-	-	9,301,761	**9,301,761**
Operating lease prepayments	-	-	-	-	10,838,683	**10,838,683**
Intangible assets	-	-	-	-	2,609,177	**2,609,177**
	-	-	-	-		
Total assets	**17,878,839**	**18,923,168**	**55,545,753**	**101,685,251**	**64,500,661**	**258,533,672**
Liabilities						
Customer deposits	7,328,058	8,374,924	31,405,963	82,519,755	24,210,225	**153,838,925**
Deposits and balances due to other banking institutions	3,147,580	3,691,894	18,526,357	-	-	**25,365,831**
Borrowings	628,929	250,696	2,700,512	9,427,218	-	**13,007,355**
Finance Leases	518,149	206,538	2,224,841	7,766,696	-	**10,716,224**
Current tax payable		-	-	-	-	**-**
Deferred tax Liability		-	-	-	401,077	**401,077**
Other Liabilities		-	-	-	8,973,617	**8,973,617**
Equity				-	46,230,643	**46,230,643**
Total Equity and Liabilities	**11,622,716**	**12,524,052**	**54,857,673**	**99,713,669**	**79,815,562**	**258,533,672**
Interest re-pricing gap As at 31 December 2018	**6,256,123**	**6,399,116**	**688,080**	**1,971,582**		

At 31 December 2018	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	-	-	-	-	26,099,304	**26,099,304**
Placements & Deposits with other banks	6,055,099	2,019,658	5,445,074	-	2,293,914	**15,813,745**
Government securities	3,955,032	6,095,384	10,106,971	4,161,448	-	**24,318,835**
Loans and advances to customers	8,786,082	7,500,504	34,788,340	71,627,493	-	**122,702,419**
Other assets	-	-	-	-	4,788,937	**4,788,937**
Current income tax recoverable	-	-	-	-	150,973	**150,973**
Property and equipment	-	-	-	-	8,662,507	**8,662,507**
Operating lease prepayments	-	-	-	-	1,252,605	**1,252,605**
Intangible assets	-	-	-	-	2,735,821	**2,735,821**
	-	-	-	-		
Total assets	**18,796,213**	**15,615,546**	**50,340,385**	**75,788,941**	**45,984,061**	**206,525,146**
Liabilities						
Customer deposits	5,349,629	6,113,862	22,926,981	65,049,020	24,893,713	**124,333,205**
Deposits and balances due to other banking institutions	2,119,337	1,537,602	11,701,449	32,915	-	**15,391,303**
Borrowings	184,170	1,152,657	5,233,557	8,835,553	-	**15,405,937**
Finance Leases	5,035	31,515	143,092	241,575	-	**421,217**
Current tax payable		-	-	-	-	**-**
Deferred tax Liability		-	-	-	562,011	**562,011**
Other Liabilities		-	-		8,535,805	**8,535,805**
Equity					41,875,668	**41,875,668**
Total Equity and Liabilities	**7,658,171**	**8,835,636**	**40,005,079**	**74,159,063**	**75,867,197**	**206,525,146**
Interest re-pricing gap As at 31 December 2018	**11,138,042**	**6,779,910**	**10,335,306**	**1,629,878**		

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

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

(d) Fair values of financial assets and liabilities

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

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable 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.

(e) Financial instruments by category

31 December	2019 Shs 000	2018 Shs 000
Assets as per balance sheet		
Cash and Balances with Bank of Uganda	35,016,468	26,099,304
Balances & Placements with other banks	34,756,929	15,813,745
Loans and advances to customers	153,975,205	122,702,419
Investment securities:	6,975,297	24,318,835
Total	**230,723,899**	**188,934,303**

	2019 Shs 000	2018 Shs 000
Liabilities as per balance sheet – at amortised cost		
Customer deposits	153,838,925	124,333,205
Deposits from other banks	25,365,831	15,391,303
Other liabilities	8,973,617	8,526,283
Borrowings	13,007,355	15,405,938
Finance Leases	10,716,224	421,217
Total	211,901,952	164,077,946

(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 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 for shareholders and benefits for other stakeholders;
• To maintain a strong capital base to support the development of its business.

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

Under the Financial Institutions Act, 2004, each Bank is required to: (a) hold the minimum level of regulatory capital of Shs 25 billion; (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 10%; and (c) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's total 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 current year-to-date (50% only) 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 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 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. 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.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example cash and balances with Bank of Uganda and 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 carries a 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 2019 determined in accordance with the Financial Institutions Act:

	2019 Shs 000	2018 Shs 000
Core capital (Tier 1)		
Shareholder's equity	**27,785,402**	**27,785,402**
Retained earnings	**15,568,765**	**12,231,729**
Intangible assets	**(2,609,177)**	**(2,735,821)**
Deferred income tax asset	-	-
Unrealized foreign exchange gains	-	-
Total core capital	**40,744,990**	**37,281,310**
Supplementary capital (Tier 2)		
General provisions (FIA)	1,531,908	1,232,011
Tier 2 capital	**1,531,908**	**1,232,011**
Total capital (Tier 1 and Tier 2)	**42,276,898**	**38,513,321**

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 2019:

	Balance sheet amount		Risk weight %	Risk weighted amount	
	2019 Shs'000	2018 Shs'000		2019 Shs'000	2018 Shs'000
Balance sheet assets (net provision)					
Cash at Hand	17,904,023	15,562,565	0%	-	-
Balances with Bank of Uganda	17,146,795	10,551,722	0%	-	-
Balances with other Financial institutions in Uganda	1,674,420	2,293,914	20%	334,884	458,783
Deposit Auction	10,000,000	2,014,902	0%	-	-
Placement with FINCA	6,100,000	3,024,411	20%	1,220,000	604,882
Placement with Pride Micro Finance	14,000,000	6,082,342	20%	2,800,000	1,216,468
Placement with Post Bank	2,652,419	2,420,663	20%	530,484	484,133
Government securities	6,975,297	24,318,835	0%	-	-
Loans and advances to customers	153,194,046	122,838,355	100%	153,194,046	122,838,355
Other assets	5,033,316	4,788,937	100%	5,033,316	4,788,937
Current income tax recoverable	26,836	150,973	100%	26,836	150,974
Property and equipment	9,301,761	8,662,507	100%	9,301,761	8,662,507
Right of Use	10,838,683	-	100%	10,838,683	-
Operating lease prepayments	-	1,252,605	100%	-	1,252,605-
Intangible	2,609,177	2,735,821	0%	-	-
Deferred income tax asset	-	-	0%	-	-
On balance sheet assets	**257,456,773**	**206,698,552**		**183,280,010**	**140,457,644**
Market risk adjustment	**2,723,122**	**3,214,707**	100%	**2,723,122**	**3,214,707**
Counter party risk adjustment	-	-	-	-	-
Off-balance sheet positions					
Guarantees	167,250	41,500	100%	167,250	41,500
Commitments to lend	922,199	921,478	50%	461,099	460,739
Off balance sheet items	**1,089,449**	**962,978**		**628,349**	**502,239**
Total risk-weighted assets	**261,269,344**	**210,876,237**		**186,631,481**	**144,174,590**

Loans and advances to customers

	2019 Shs '000	2018 Shs '000
Gross loans and overdraft (Note 20(a))	155,700,526	126,150,334
Less specific provisions (FIA)	(1,924,409)	(2,226,949)
Less interest in suspense	(468,616)	(722,310)
Cash collateral	(113,454)	(362,720)
Net Loans and advances	**153,194,047**	**122,838,355**

Capital ratios per Financial Institutions Act (FIA)

Core capital	40,744,990	37,281,310
Total capital	42,276,898	38,513,321
FIA minimum ratio capital requirement		
Core capital (10%)	21.83%	25.90%
Total capital (12%)	**22.65%**	**26.70%**

8 Interest income

	2019 Shs 000	2018 Shs 000
Loans and advances	40,059,286	36,380,066
Government securities	1,516,531	2,074,741
Short term placements	2,703,268	1,568,828
	44,279,085	**40,023,635**

9 Interest expense

	2019 Shs 000	2018 Shs 000
Customer deposits	6,802,001	5,529,954
Borrowed funds	3,176,928	2,733,225
	9,978,929	**8,263,179**

10 Fee and commission income

	2019 Shs 000	2018 Shs 000
Transactional fees and commission income	6,053,222	5,696,988
Credit related fees and commission income	14,094,180	13,449,352
	20,147,402	**19,146,340**

11 Foreign exchange income

	2019 Shs 000	2018 Shs 000
Realized foreign exchange gains	158,749	120,368
Unrealized foreign exchange gains	-	-
	158,749	**120,368**

12 Other operating income

	2019 Shs 000	2018 Shs 000
Recovery of written off loans	1,027,525	1,211,061
Grant income	180,267	250,666
Other income	289,809	221,239
	1,497,601	**1,682,966**

13 Operating expenses

	2019 Shs 000	2018 Shs 000
Depreciation of property and equipment (Note 21)	2,065,411	2,399,362
Depreciation on Right of Use (Note 34 (i))	2,104,540	-
Amortization of intangible assets (Note 23)	603,384	653,533
Employee benefits expense (Note 14)	27,076,724	23,359,354
Auditor's remuneration	273,860	283,390
Legal fees	623,967	409,722
Other professional fees	91,838	83,862
Rent and rates (Note 34(h))	334,916	2,826,614
Advertising and promotion	1,612,941	1,372,950
Communication and technology	2,483,524	2,720,601
Administration costs	7,260,427	7,034,991
Other	2,168,791	1,044,990
	46,700,323	**42,189,369**

14 Employee benefits expense

	2019 Shs 000	2018 Shs 000
Salaries and wages	21,616,527	18,842,945
NSSF contributions	2,242,971	1,844,888
Defined contribution scheme contributions	716,342	575,277
Other staff costs	2,500,885	2,096,244
	27,076,725	**23,359,354**

15 Income tax expense

	2019 Shs 000	2018 Shs 000
Current income tax charge	2,029,029	1,871,409
Withholding tax on government securities	315,793	402,172
Prior Period Adjustments	423,635	-
Defferred income tax charge- current year (Note 28)	(160,934)	(81,264)
	2,607,523	**2,192,317**

	Rate	2019 Shs 000	Rate	2018 Shs 000
Profit before income tax		8,717,059		8,040,854
Tax calculated at the statutory income tax rate	30%	2,615,118	30%	2,412,256
Tax effect of:				
Tax effect of non-deductible items	2%	135,862	0%	38,866
30% standard tax rate applied on income taxed at 20%	(2%)	(148,335)	(3%)	(201,086)
Prior year deferred income tax under provision	0%	4,878	(1%)	(57,719)
Income tax Charge	**30%**	**2,607,523**	**27%**	**2,192,317**
Current income tax recoverable/(payable) was as follows:				
At 1 January		150,973		121,114
Adjustments for prior period items		(423,635)		49,606
Current income tax charge		(2,344,823)		(2,273,581)
Income tax paid		2,644,321		2,253,834
At 31 December		**26,836**		**150,973**

16 Cash and balances with Bank of Uganda

	2019 Shs 000	2018 Shs 000
Cash on hand	17,904,024	15,562,565
Balances with Bank of Uganda	17,146,794	10,551,722
IFRS 9 Impairment on Balances with Bank of Uganda	(34,350)	(14,983)
	35,016,468	**26,099,304**

17 Placements and deposits with other banks

	2019 Shs 000	2018 Shs 000
Balances with Banks in Uganda	1,674,420	2,293,914
Placements with other banking institutions - in Uganda	33,116,605	13,542,318
IFRS 9 Impairment	(34,096)	(22,487)
	34,756,929	**15,813,745**

18 Government securities

Treasury bills	2019 Shs 000	2018 Shs 000
Maturing within 90 days	2,000,000	8,000,000
Maturing later than 90 days	1,000,000	11,000,000
	-	-
	3,000,000	**19,000,000**
Unearned interest	(179,221)	(987,133)
IFRS 9 impairment	(3,188)	(25,578)
	2,817,591	**17,987,289**
Treasury bonds		
Maturing within 90 days	2,000,000	2,179,101
Maturing after 90 days	2,162,498	4,161,449
IFRS 9 Impairment provision	(4,792)	(9,004)
	4,157,706	**6,331,546**
Total government securities	**6,975,297**	**24,318,835**

19 Other assets

	2019 Shs 000	2018 Shs 000
Accounts receivable and prepayments	4,486,565	4,251,010
Other receivables	73,976	105,788
Consumables	472,775	432,139
	5,033,316	**4,788,937**

20 Loans and advances to customers

a) Analysis of loan advances to customers by category

	2019 Shs 000	2018 Shs 000
Term loans	**153,956,576**	**124,749,745**
Overdrafts	**1,627,282**	**1,400,589**
Staff loan fair valuation adjustment	**116,667**	**(92,266)**
Total Gross Loans and advances	**155,700,525**	**126,150,334**
Less: Provision for impairment of loans and advances		
Stage 1	**(912,890)**	**(1,098,635)**
Stage 2	**(103,478)**	**(37,304)**
Stage 3	**(708,952)**	**(2,219,710)**
Total loan provisions	**(1,725,320)**	**(3,355,649)**
Net loans and advances	**153,975,205**	**122,702,419**

The weighted average effective interest rate on loans and advances to customers was 29.3 % (2018: 25%).

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

Year ended 31 December 2018	Stage 1	Stage 2	Stage 3	Total
At 1 January	**1,602,416**	**157,662**	**421,139**	**2,181,217**
Provision for loan impairment	579,757	100,103	1,765,072	**2,444,932**
IFRS 9 Impairment Adjustment	(881,215)	(97,537)	1,889,769	**911,017**
Loans written off during the year as uncollectible	(202,215)	(122,924)	(1,856,270)	**(2,181,409)**
At 31 December	**1,098,743**	**37,304**	**2,219,710**	**3,355,757**

Year ended 31 December 2018	Stage 1	Stage 2	Stage 3	Total
At 1 January	**1,098,743**	**37,304**	**2,219,710**	**3,355,757**
Provision for loan impairment	150,861	116,770	414,522	682,153
Loans written off during the year as uncollectible	(336,714)	(50,596)	(1,925,280)	(2,312,590)
At 31 December	**912,890**	**103,478**	**708,952**	**1,725,320**

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

Year ended 31 December 2018		
At 1 January		
Impairment charge on cash & balances with Bank of Uganda (note 16)		14,983
Impairment charge on Bank balances (note 17)		22,487
Impairment charge on investment securities (note 18)		34,582
At 31 December 2018		**72,052**
Year ended 31 December 2019		
At 1 January 2019		
IFRS 9 Impairment adjustment on balances with bank of Uganda (note 16)		34,350
IFRS 9 Impairment adjustment bank balances (note 17)		34,096
IFRS 9 Impairment adjustment on investment securities (note 18)		7,980
At 31 December 2019		**76,426**

(b) Impairment losses charged to profit or loss

	2019 Shs 000	2018 Shs 000
Impairment charge on cash & balances with Bank of Uganda	**19,366**	**10,129**
Impairment charge on Bank balances	**11,609**	**12,917**
Impairment charge on investment securities	**(26,601)**	**11,929**
Impairment charge on Loans	**682,153**	**2,444,932**
	686,527	**2,479,907**

(c) Regulatory Credit Risk Reserve

Analysis as required under the Financial Institutions Act (FIA)

	2019 Shs 000	2018 Shs 000
Total provision as per IFRS		
Stage 1	989,317	1,098,635
Stage 2	103,478	37,304
Stage 3	708,952	2,219,710
Total	**1,801,747**	**3,355,649**
Total provisions as required under the FIA		
Specific provisions	1,924,409	2,226,949
General provisions	1,531,908	1,232,011
	3,456,317	**3,458,960**

Regulatory reserve		
At 1 January	103,311	1,097,788
Transfer to retained earnings	1,551,259	(994,477)
At 31 December	**1,654,570**	**103,311**

21 Property and equipment

	Buildings Shs 000	Motor vehicles/ Cycles Shs 000	Compu ter Hardware Shs 000	Fixtures, fittings and equipme nt Shs 000	Work in progress Shs 000	Total Shs 000
Year Ended 31 December 2017						
Opening net book amount	**160,137**	**944,293**	**1,717,655**	**6,041,151**	**281,278**	**9,144,514**
Asset Reconciliation Adjustment	(22)	2,670	775	6,947		10,370
Additions	405,995	119,680	514,285	837,393	175,356	2,052,709
Transfers from WIP	-	-	-	46,250	(182,648)	(136,398)
Depreciation charge	(3,129)	(258,235)	(704,410)	(1,433,588)	-	(2,399,362)
Disposals						
Cost	-	(2,302)	(248)	(6,776)	-	(9,326)
Depreciation	-				-	
Closing net book amount	562,981	806,106	1,528,057	5,491,377	273,986	**8,662,507**
Cost	603,734	2,631,490	6,129,606	15,175,185	273,986	24,814,001
Accumulated depreciation	(40,753)	(1,825,384)	(4,601,550)	(9,683,807)	-	(16,151,491)
Net book amount	**562,981**	**806,106**	**1,528,056**	**5,491,378**	**273,986**	**8,662,507**
Year Ended 31 December 2019						
Opening net book amount	**562,981**	**806,106**	**1,528,056**	**5,491,378**	**273,986**	**8,662,507**
Asset reconciliation adjustment				(40,143)	-	(40,143)
Additions	-	287,902	910,728	1,636,813	315,093	3,150,536
Transfers from WIP				19,414	(38,132)	(18,718)
Write Offs	-	-	(2,757)	(149,739)	-	(152,496)
Depreciation charge	(8,228)	(240,875)	(558,711)	(1,257,598)	-	(2,065,411)
Disposals	-	(4,376)	(63)	(230,075)	-	(234,514)
Closing net book amount	554,753	848,757	1,877,254	5,470,050	550,947	**9,301,761**
Cost	603,734	2,894,937	7,015,906	15,758,100	550,947	26,823,624
Accumulated depreciation	(48,981)	(2,046,180)	(5,138,652)	(10,288,050)	-	(17,521,863)
Net book amount	**554,753**	**848,757**	**1,877,254**	**5,470,050**	**550,947**	**9,301,761**

22 Operating lease prepayments

	2019 Shs 000	2018 Shs 000
Cost		
At 1 January	**15,103,192**	**12,179,092**
Transfer to Right Of Use (Note 34)	(948,529)	-
Additions	-	2,924,100
At 31 December	14,154,663	15,103,192
Amortization		
At 1 Janua ry	**13,850,587**	**11,023,973**
Charge for the year	304,076	2,826,614
At 31 December	**14,154,663**	**13,850,587**
Net book value	-	**1,252,605**

23 Intangible assets

	2019 Shs 000	2018 Shs 000
Net book amount at 1 January	2,735,821	3,109,304
Additions: Computer Software	540,371	143,652
Write offs	(82,350)	-
Transfer from property and equipment	18,719	136,398
Amortization	(603,384)	(653,533)
Net book amount at 31 December	**2,609,177**	**2,735,821**
Cost	**7,023,142**	**7,745,999**
Accumulated depreciation	(4,413,965)	(5,010,178)
Net book amount	**2,609,177**	**2,735,821**

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

24 Customer deposits

	2019 Shs 000	2018 Shs 000
Current and demand deposits	24,210,225	**24,893,713**
Savings accounts	103,900,976	**84,542,586**
Fixed deposit accounts	25,727,724	**14,896,906**
	153,838,925	**124,333,205**

The weighted average effective interest rate on customer deposits was 2.04% (2018: 2.0%).

25 Deposits and balances due to other banking Institutions

	2019 Shs 000	2018 Shs 000
Term deposits	**25,365,831**	**15,391,303**
	25,365,831	**15,391,303**

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 10.94%.

26 Borrowings

	2018 Shs 000	2018 Shs 000
Uganda Development Bank	3,739,040	4,823,229
aBi Finance	1,574,577	3,156,993
Stromme Microfinance East Africa Limited	-	185,096
Uganda Energy Credit Capitalisation Company	844,472	971,022
The Micro Finance Support Centre Limited	3,495,804	2,041,752
East Africa Development Bank	3,353,462	4,227,845
Oikocredit	-	-
	13,007,355	**15,405,937**

The terms and conditions relating to the borrowings are set out below:

The Uganda Development Bank facility was a loan of Ugx 6.0bn sourced for on-lending to Agri-business. It is repayable on a quarterly within a tenor of 5 years at a fixed interest rate of 12% pa. Its secured by a lien over 100% of the Bank's performing loan portfolio and a cross guarantee by Uganda Women's Trust.

The ABI loan was secured in 2 tranches of Ugx 5.0bn and Ugx 2.2bn for periods of 5 years. The tranche of Ugx 5.0bn was secured at rate of 13.5% while that of Ugx 2.2bn was secured at 14.0% to finance agri-business. The facilities are repayable on a quarterly basis and are secured by a debenture on the Bank's performing loan portfolio encumbered up to 120% of the facility.

The loan from East African Development Bank was in the amount of Ugx 5.5875bn taken out for a period of 8 years at a rate of 15% for purposes of on-lending to rural based agricultural and agri-business enterprises in Uganda. This rate was revised downwards to 12% effective 1st December 2018. It is secured by a floating charge of 120% on the Bank's loan portfolio.

The first set of loan from Micro Finance Support Centre Limited in the amount of Ugx 3.0bn was obtained for a period of 24 months at a fixed rate of 11% and by close of 2019 had a running balance of Ugx 0.9bn During the year 2019 they extended an extra facility of Shs 3bn for a period of 3 years at a fixed rate of 11%. Both facilities were for purposes of on-lending to teachers through the Teacher's SACCO and are secured by a fixed debenture charge over the Bank's loan portfolio to the extent of the amount advanced.

The Uganda Energy Credit Capitalisation Company facility (UECCC) was in the amount of Ugx 1.4bn secured for a period of 10 years at a rate of 8.5% for purposes of Solar refinancing. It is repayable on a half yearly and it's secured by a demand promissory note in favour of UECCC. The bank also entered an extra arrangement of a facility of Ugx 300M at 5% p.a for two and half years and received a first tranche of Ugx 50M and subsequent disbursement subject to accountability.

27 Other liabilities

	2019 Shs 000	2018 Shs 000
Accounts payable	1,864,161	1,803,876
Accruals and provisions	840,014	773,594
Other taxes payable	945,818	750,505
Gratuity & pensions	805,903	683,654
Deferred income	2,029,904	1,764,516
Designated funds	55,668	83,595
Dividends payable	46,769	9,522
Capital grants	722,718	902,984
Suspended loan fees	695,303	986,874
NSSF payable	289,577	246,322
Loan Insurance payable	190,574	248,502
Others	487,208	281,861
	8,973,617	**8,535,805**

Designated funds relate to grant monies 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.

28 Deferred income tax (asset)/liability

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 2019	1 January 2019 Shs 000	Charged (credited) to P/L Shs 000	31 December 2019 Shs 000
Deferred income tax liabilities			
Accelerated tax depreciation	1,632,480	(195,403)	1,437,077
Deferred income tax assets			
Tax losses carried forward	-	-	-
Capital grants	(270,897)	54,082	(216,815)
Provisions for loan impairment	(362,397)	188,253	(174,144)
IFRS 16 Impact	-	(151,266)	(151,266)
Other provisions	(437,175)	(56,600)	(493,775)
	(1,070,469)	34,469	(1,036,000)
Net deferred income tax (asset)/liability	**562,011**	**(160,934)**	**401,077**

Year ended 31 December 2018	1 January 2018 Shs 000	Charged (credited) to P/L Shs 000	31 December 2018 Shs 000
Deferred income tax liabilities			
Accelerated tax depreciation	1,602,629	29,851	1,632,480
Deferred income tax assets			
Capital grants	(307,059)	36,162	(270,897)
Provisions for loan impairment	(499,510)	137,113	(362,397)
Other provisions	(152,785)	(284,390)	(437,175)
	(959,354)	(111,115)	(1,070,469)
Net deferred income tax (asset)/liability	**643,275**	**(81,264)**	**562,011**

The movement on the deferred tax asset account is as follows:	2019 Shs 000	2018 Shs 000
At 1 January	**562,011**	**(643,275)**
Income statement credit	(160,934)	81,264
At 31 December	**401,077**	**(562,011)**

29 Share capital

	Number of shares issued & fully paid	Ordinary shares Shs 000
Year ended 31 December 2018		
At start of year	**27,785,402**	**27,785,402**
	-	-
At year end	**27,785,402**	**27,785,402**

Year ended 31 December 2019		
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 Shs 30 million (2018: 30 million) with a par value of Shs 1,000 per share. No share issues were done during the year 2019.

30 Bank shareholding

The Bank shareholders are as follows:

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

31 Analysis of cash and cash equivalents

	2019 Shs 000	2018 Shs 000
Cash and Balances with Banks of Uganda (note 16)	35,016,468	26,099,304
Less: cash reserve requirement	(12,307,114)	(10,810,000)
Government securities - maturing within 90 days (note 18)	4,000,000	10,165,015
Balances and Placements with other banks (note 17)	34,756,929	15,813,745
	61,466,283	**41,268,064**

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 8% of the average outstanding customer deposits over a cash reserve cycle period of two weeks. Whilst it's 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.

	2019 Shs 000	2018 Shs 000
Cash & unrestricted balances with Bank of Uganda (Note 16)	35,016,468	26,099,304
Government securities - maturing within 90 days & AFS (note 18)	4,000,000	10,165,015
Balances with other banks (note 17)	1,674,420	2,290,657
Included in cash and cash equivalents	**40,690,888**	**38,554,976**
Restricted balances with Bank of Uganda	2,000,000	2,000,000
Movement in restricted balances:		
At start of year	2,000,000	2,000,000
Movement during the year	-	-
At end of year	2,000,000	2,000,000

32 Analysis of changes in financing during the year

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

	Borrowings Shs 000	Change in operating grants Shs 000	Change in Capital grants Shs 000	Dividends paid to share Shs 000
31 December 2019 Balance as at 1 January 2019	**15,405,937**	**83,595**	**902,984**	-
Changes in financing cash flows				
Receipts	3,050,000	476,038	-	-
Repayments of Debt	(5,371,023)	(503,965)	-	(1,717,313)
Total changes from financing cash flows	**(2,321,023)**	**(27,927)**	-	**(1,717,313)**
Other changes Interest expense	**(77,559)**	-	**(180,267)**	-
Total liability related other changes	**(77,559)**	-	**(180,267)**	-
Balance as at 31 December 2019	13,007,355	55,668	722,717	-
31 December 2018 Balance as at 1 January 2018	**23,316,087**	**471,385**	**1,023,528**	-
Changes in financing cash flows				
Receipts	-	271,316	130,122	-
Repayments of Debt	(7,791,545)	(659,106)	-	**(700,145)**
Total changes from financing cash flows	**(7,791,545)**	**(387,790)**	**130,122**	**(700,145)**
Other changes Interest expense	(118,605)	-	(250,666)	-
Total liability related other changes	**(118,605)**	-	**250,666**	-
Balance as at 31 December 2018	**15,405,937**	**83,595**	**902,984**	-

33 Retained earnings

	2019 Shs 000	2018 Shs 000
At 1 January	12,232,395	8,124,360
Adjustment on initial application of IFRS 9	-	(948,093)
Restated balance at 1 January 2018	**12,232,395**	**7,176,267**
Total comprehensive income for the year	6,109,535	5,850,754
Transfer from Regulatory Reserves	**(1,551,259)**	994,477
Transactions with Owners	(1,221,906)	(1,789,103)
At 31 December	**15,568,765**	**12,232,395**

34 IFRS 16 Assessment

a) Introduction of the standard

Under IFRS 16, a lease is defined on the basis of whether the customer controls the use of an asset for a period of time. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. It goes ahead to define the Liability as " a present obligation arising from past events the settlement of which is expected to result in an outflow from the entity and as such of resources embodying economic benefits " and as such lease payments qualified to meet this definition

This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

b) Initial Measurement

IFRS 16 requires cost measurement basis for the right of use asset and lease liability. The cost is measured with reference to the present value of the lease payments. The right of use asset cost is further defined to include any initial direct costs incurred by the lessee, and an estimate of any restoration costs.

c) Subsequent Measurement

IFRS 16 requires a lessee to subsequently measure the right of use asset at cost less accumulated depreciation and or accumulated impairment losses adjusted for re-measurements of the lease Liability. The standard further requires the lessee to measure the Lease liability using an effective interest method so that the carrying amount of the lease liability is measured at amortized cost basis and the interest expense allocated over the lease term.

d) Presentation

IFRS 16 requires the lessee to provide information about the carrying amount of right –of –use separately from assets that are owned either in the statement of financial position or in the notes. Similarly Lease Liability should be presented separately from other liabilities either in the statement of financial or in the notes.

On the other the standard requires a lessee to present interest on the lease liability together with the interest on other financial liability and depreciation of right-of-use together with other similar expenses. In terms of cash flow movements, the lessee should classify the principal portion of cash payments of the lease liability as financing activities and cash payment for interest consistently with other interest payments.

e) Disclosure Requirements

IFRS 16 requires a reporting entity to disclose quantitative information about its right of use and expenses and cash flows related to the Leases. It further guides the lessee to disclose any additional information that is necessary to satisfy the overall disclosure objective which is to improve the interpretation and implementation of the disclosure requirements

f) Method of application

The standard offered two option for adoption. That is a retrospective approach and Modified approach. Retrospective requires an entity to reinstate prior period financials by ascertaining the impact on both the right of use, lease liability and the equity adjustment thereon. A modified retrospective approach includes a number of options and practical expedients for lessees, which can have a significant impact on a company's transition balances and post-transition financial information.

The Bank (as a lessee) applied the modified retrospective approach in the implementation of the requirements of the new lease standard with 01 January 2019 as the date of initial application and as such the comparative information presented for 2018 is not restated.

The Bank applied IFRS 16 only to contracts that were previously identified as operating Leases. Accordingly, the bank will derive a Right of Use Asset and Lease Liability over the balances of lives arising on all tenancy agreements in force across the branch network.

g) Below are the key assumptions for the model which the bank adopted for its assessment and reporting for 2019;

- In line with the standard definition of low value, the bank defined its low value assets as those below $ 5000.
- The bank assessed all branches except for Mukono and Pallisa which are fully owned by the bank.
- The discount rate has been considered as the bank's weighted average cost of borrowing as at 31st Dec 2018 which stood at 12.16%.
- Depreciation rate has been estimated at straight line over the remaining lease term.
- The bank exercised renewal options for Jinja, Mbale and Nansana branches during the year.
- No dismantling/restoration costs were considered due to the complexities of reasonably ascertaining this cost which was not incorporated in all the bank's tenancy agreement at inception.
- Lease charge shall be applied on reducing basis.
- All payments for leases happen at the start of the period and that they shall adhere to the prescribed payment frequency as per tenancy that is, quarterly, semi-annual and annual.
- No operating lease has been reported for such branches as the payments are done against the lease liability.

h) Short term leases

The Bank had some branches whose contract terms were not exceeding 12 months. The Bank elected not to recognise right of use assets and liabilities for these leases. These included;

Kijura branch which closed its operations in April 2019 hence the bank incurred rent for the 4 months (Shs.4million only), Mbarara whose contract terms were expiring in De c 2019 Shs 24million, Mbale and Nansana old premises where the bank terminated the leases in Feb & July 2019 (Shs 20.7million, and Shs 56.5million respectively) and entered into new lease terms that were considered for this standard assessment, and Kampala road with Shs 226.9million whose lease term was fully paid up with no renewal intentions. The bank shall reassess the leases in subject and shall proceed to elect the requirements should fresh lease terms qualify for the Right of use and lease liability measurement as by the standard.

i)

The balance of Right of Use as at 31 December 2019 Right of Use	Shs 000
As at 1 January	10,912,356
Additions	2,030,867
As at 31 December	**12,943,223**
Amortization	
As at 1 January	
Charge for the year	(2,104,540)
As 31 December	(2,104,540)
Net book value	
As 31 December	**10,838,683**

j) Lease liability

The Bank enters finance leasing arrangements as a source of financing to support her operations. As at end of the year 2019, the Bank had running leases with Sybl, one of its major suppliers for Call Centre Equipment over a period of 3 years, 10 Note counting Machines from Sybl for 5 years with annual lease rentals were agreed at Shs 49,560,000 payable semi-annually with an effective date of the lease arrangement was 01 April 2019, 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 (Note 21). It should be noted that a 5 year lease of 22 note counting machines from Unique Business Solutions was prematurely ended on account of poor quality machines and default on servicing terms by the Lessors'. On the other hand during the year 2019 the bank adopted a new reporting standard IFRS 16 and assessed all its tenancy agreements which accordingly gave rise to a right of Use with a Lease liability. These contributed to total lease liability of Shs 10.7billion as shown below.

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

		Shs 000
As at 1 January	421,217	67,311
Lease liability as at 1 January	9,963,827	-
Lease liability during the year	2,099,172	586,022
Lease charge for the year	1,094,285	-
Lease payments during the year	(2,624,578)	(232,116)
Terminations during the year	(237,699)	-
	10,716,224	**421,217**
Not later than 1 year	2,949,528	99,995
Later than 1 year but less than 5 years	7,766,696	321,222
	10,716,224	**421,217**

35 Earnings per share

	2019 Shs 000	2018 Shs 000
Profit attributable to equity holders of the Bank	6,109,535	5,848,537
Weighted average number of ordinary shares in issue	27,785,402	27,785,402
Earnings per share (expressed in Shs per share)	0.220	0.210

36 Related party balances

The immediate and ultimate parent of the Bank is UWT which owns 20.1% of the Bank's shares.

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

	2019 Shs 000	2018 Shs 000
Borrowings from related parties		
Loans from Oikocredit (shareholder)	-	-
Interest expense incurred Oikocredit (shareholder)	-	211,188
Loans and advances to key management	1,507,614	1,662,835
Loans to Shareholder (Ms Wanendeya Ida, Mr Mwambu William Wanendeya on behalf of Carico Café Connoisseur Limited & Ms Lydia Ochieng Obbo))	284,649	114,280
TOTAL	**1,792,263**	**1,777,115**

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 Shs 196 million (2018: Shs 111 million).

All loans to key management were administered at the approved interest rate on staff loans of 10% while that to the shareholders were extended at a rate of 23%.

Key management compensation	2019 Shs 000	2018 Shs 000
Salaries and short-term employment benefits	3,100,677	2,703,527
Terminal benefits	716,342	575,277
Other staff benefits	247,429	121,382
	4,064,448	**3,400,186**
Directors' remuneration		
Directors' fees	478,884	428,709

37 Bank Commitments

The following are the commitments outstanding at year end	2019 Shs 000	2018 Shs 000
Guarantee and performance bonds	167,250	41,500
	167,250	**41,500**

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:

	2019 Shs 000	2019 Shs 000
Approved advances not utilized	**922,199**	**921,478**

38 Revalution reserve

	2019 Shs 000	2018 Shs 000
As at 1 Janua ry	-	**2,217**
Transfer to P&L	-	**(2,217)**
Net m oveme nt for the year	-	-

39 Dividends

	2019 Shs 000	2018 Shs 000
Dividends Proposed	1,221,906	1,754,560
	1,221,906	**1,754,560**

No interim dividend was paid during the year 2019 (2018: Nil). The directors recommend a final dividend for the year 2019 of Shs 1.222 billion (2018: Shs 1.755billion).

40 Shareholder exit transaction

During the year 2019, the Bank underwent a couple of due diligence exercise by prospective Investors. The transaction is still underway and expected to close in 2020.

41 Events after reporting date

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe including Uganda. The Ugandan government has since taken stringent measures to help contain the spread of the virus. These measures include;

- Banning all out bond movements for Ugandans going to countries that have been hit
- Factories ,hotels, markets and Taxis to continue functioning but with standard procedures set out by the Ministry of Health
- Suspension of monthly markets for 32 days
- Prohibition of Disco places and Bars
- Prohibition of public gatherings or gathering of any political, cultural form to less than 10 people among others and more stringent measures anticipated as positive cases continue to surge.

The economic impacts of these measures include but are not limited to:

- Disruption to business operations, in particular, in 'significantly impacted countries' that have high and/or rapidly increasing infection rates;
- Significant disruption to businesses in 'highly exposed sectors' globally, in particular, trade and transportation, travel and tourism, hospitality/entertainment/sport, manufacturing, construction and retail;
- A significant increase in economic uncertainty, evidenced by more volatile asset prices and currency exchange rates and a significant decline in long-term interest rates in developed economies.
- Rapid growth in domestic items' prices due to uncertainties in supply and demand.
- Significant business interruption arising from supply chain disruption, closure of manufacturing or commercial facilities, travel restrictions and logistics disruption, unavailability of personnel etc.;
- The uncertainties in the economy are likely to significantly affect the Bank's projected asset growth and quality hence adverse effects on the revenues. This is because Uganda as a country Business sector largely depends on importation from the heavily infested countries say China and the Banks' customers are not operating in isolation. On a similar note, due to anxiety amongst the clientele, there is a likelihood of high deposit demand hence high levels of liquidity outflows.
- High operating costs in implementing safety measures for the workforce and clientele as well as investment in infrastructure to facilitate offsite operations for key personnel to strengthen Business Continuity in the event of total lockdown, and general negative impact on staff productivity due to emotional anguish from the deadly virus.
- Abnormally large changes in, foreign exchange rates or interest rates after the reporting date that will significantly impact the measurement of assets and liabilities in future periods.

The potential impact of this cannot be reliably estimated and as such financial statements are not adjusted to reflect this impact.