FINANCE trust BANK

Putting Women First

Driving **Businesses** & **Entrepreneurs** towards growth

Annual Report & Financial Statement 2021

Switch to the Bank that moves you

Switch to the Bank that moves you

Switch to the Bank that moves you

Get an **Agro - Business Loan** now and **boost your business**

The Agro–Production Loan is specially tailored for farmers who wish to increase their agricultural production yields. Do you wish to purchase seeds, pesticides, fertilisers, farm implements, and livestock?

This loan is offered to individuals, joint account holders, partnerships, Associations and companies dealing in agricultural production.

Benefits

- Increase your Agricultural working capital
- Enjoy small managable installments
- Enjoy low interest rates
- Pay loan over a long period of time
- Grace Period.

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WHO WE ARE
AND WHAT WE DO

Finance Trust Bank Limited (FTB) is a licensed and regulated financial institution by Bank of Uganda under license number A1.028. The Bank has a large branch network of thirty four (34) branches serving over 470,000 customers, countrywide. The bank was established in 1984 first as Uganda Women Finance Credit Trust and in 2004 transformed into an MDI. In 2013 was granted the full commercial banking license to offer a full spectrum of banking services including provision of various products and services namely deposits, loans, money transfer services, and forex.

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

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

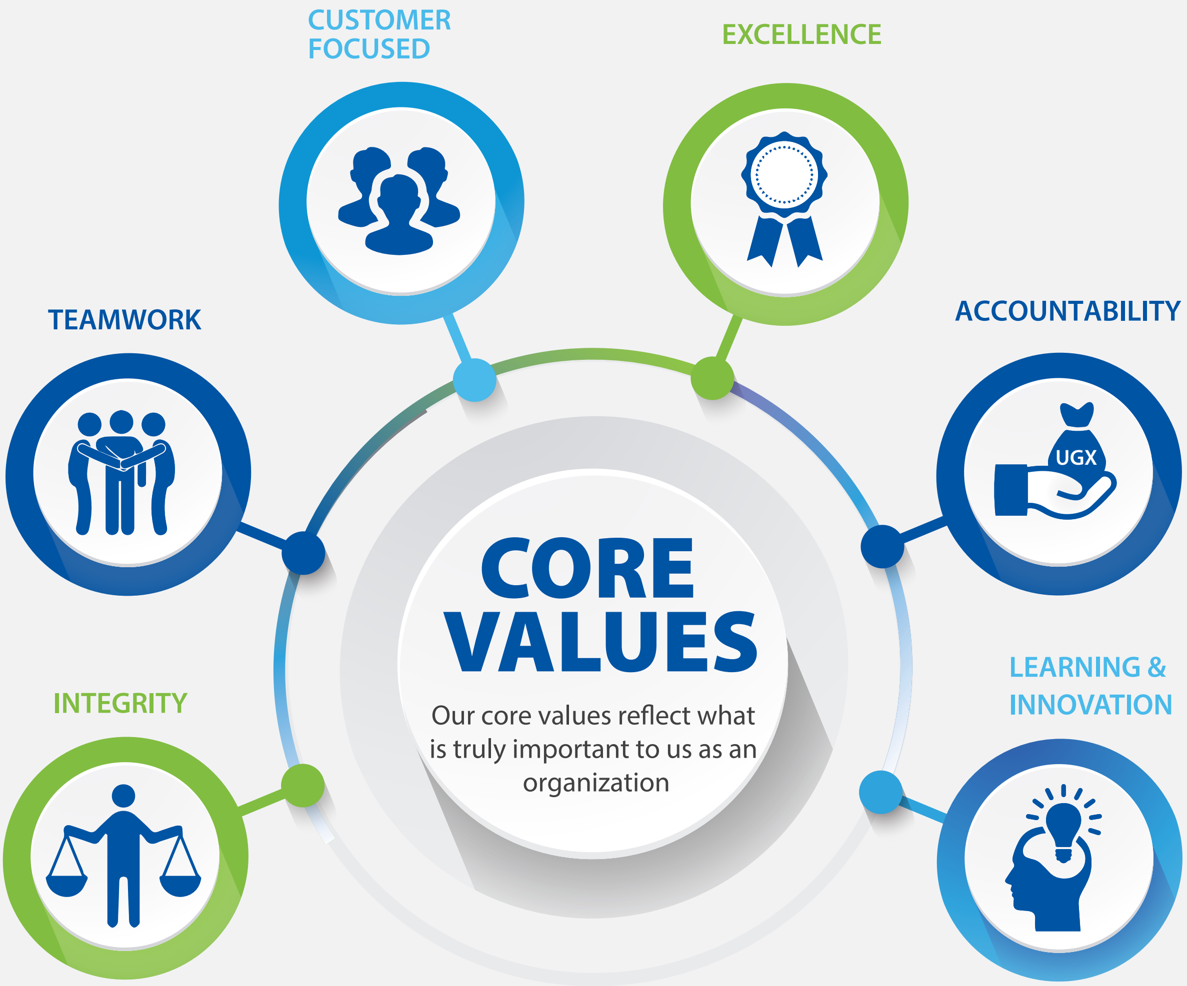
Who we serve
Our core client lies in the lower pyramid of the economic strata, especially women who are emerging rural entrepreneurs and enterprising urbanites as individuals and as saving groups.

OUR VISION

To be the bank of choice.

OUR MISSION

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



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OUR BANKING NETWORK AND CONTACTS

Arua Branch
Plot 2 Duka Rd
0740 002663

Entebbe Branch
Plot 29, Kampala Rd - Entebbe
0740 002673

Katwe Branch
Plot 121 & 115,Block 6, Kampala
0740 002707

Mbarara Branch
Plot 31 High Street Mbarara
0740 002708

Mukono Branch
Plot 35, Kampala-Jinja Rd
0740 002709

Central Branch
Plot 1 Bombo Rd, Sure House
0740 002669

Iganga Branch
Plot 74, Main Street.
0740 002677

Kitintale Branch
Plot 1315 block 243 Kitintale Trading Centre
0740 002778

Soroti Branch
Plot 49 Gweri Rd, Soroti
0740 002691

Kamuli Branch
Plot 1 Kitimbo Road, Kamuli
0740 002705

Tororo Branch
Plot 7, Bazaar Street, Tororo.
0740 002690

Kabarole Branch
Rukidi III Street, Fortportal
0740 002698

Lwengo Branch
Mbirizzi Trading centre, Lwengo
0740 002773

Pallisa Branch
Plot 11 Block B, Gogonya Road
0740 002693

Ntungamo Branch
Plot 18, Old Kabale Rd, Ntungamo
0740 002712

Jinja Branch
Plot 83 West Main street Jinja
0740 002696

Nakivubo Branch
Plot 30-32 Mackay Rd, Kampala, Freeman Foundation Building
0740 002710

Masaka Branch
Plot 17 Edward avenue
0740 002687

Mbale Branch
Plot 23 Republic Street
0740 002688

Nansana Branch
Plot 8538, opposite Nabweru Junction
0740 002735

Kalerwe Branch
Plot 641 Kibuga Mengo Kalerwe (Opp. Shell Petrol St)
0740 002702

Kapchorwa Branch
Kapchorwa Rd
0740 002727

Busia Branch
Plot 53, Custom Rd. Busia
0740 002668

Gomba Branch
Block 212, Plot 117 Kanoni Trading Centre, Gomba
0740 002664

Owino Branch
Plot 769 (Kafumbe Mukasa Rd)
0740 002713

Kamwenge Branch
Plot 10, Station Rd
0740 002706

Kikuubo Branch
Plot. 21 Nakivubo Rd Kampala
0740 002734

Ishaka Branch
Rukungiri Road,
0740 002679

Kampala Road Branch
Plot 4 Kampala Rd
0740 002704

Lugazi Branch
Plot 65 Block 316, Lugazi
0740 002684

Kayunga Branch
Plot 103 Kayunga Town
0740 002680

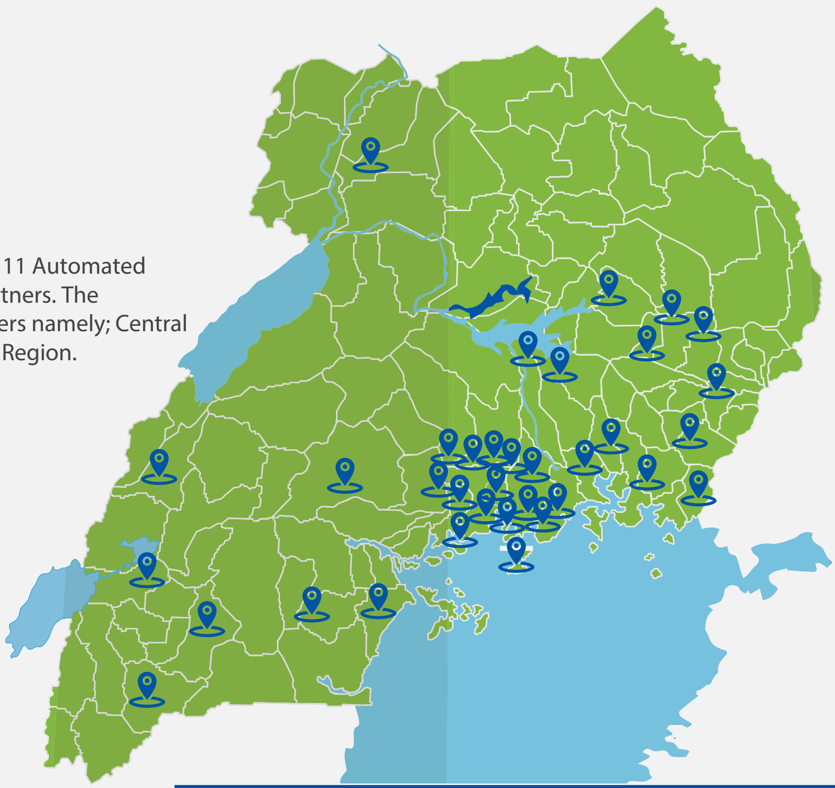
Kalangala Branch
Plot 52/3 Main Rd Kalangala
0740 002700

Nateete Branch
Plot 1246 & 974 Nateete towards traffic lights
0740 002711

Kumi Branch
Plot 26A, Ngora Rd, Kumi
0740 002681

OUR FOOTPRINT ACROSS UGANDA

The bank has 34 operational branches with 11 Automated Teller Machines and 125 Agent Banking partners. The branches are clustered into 5 regional clusters namely; Central A, Central B, Mid East, Far East and Western Region.

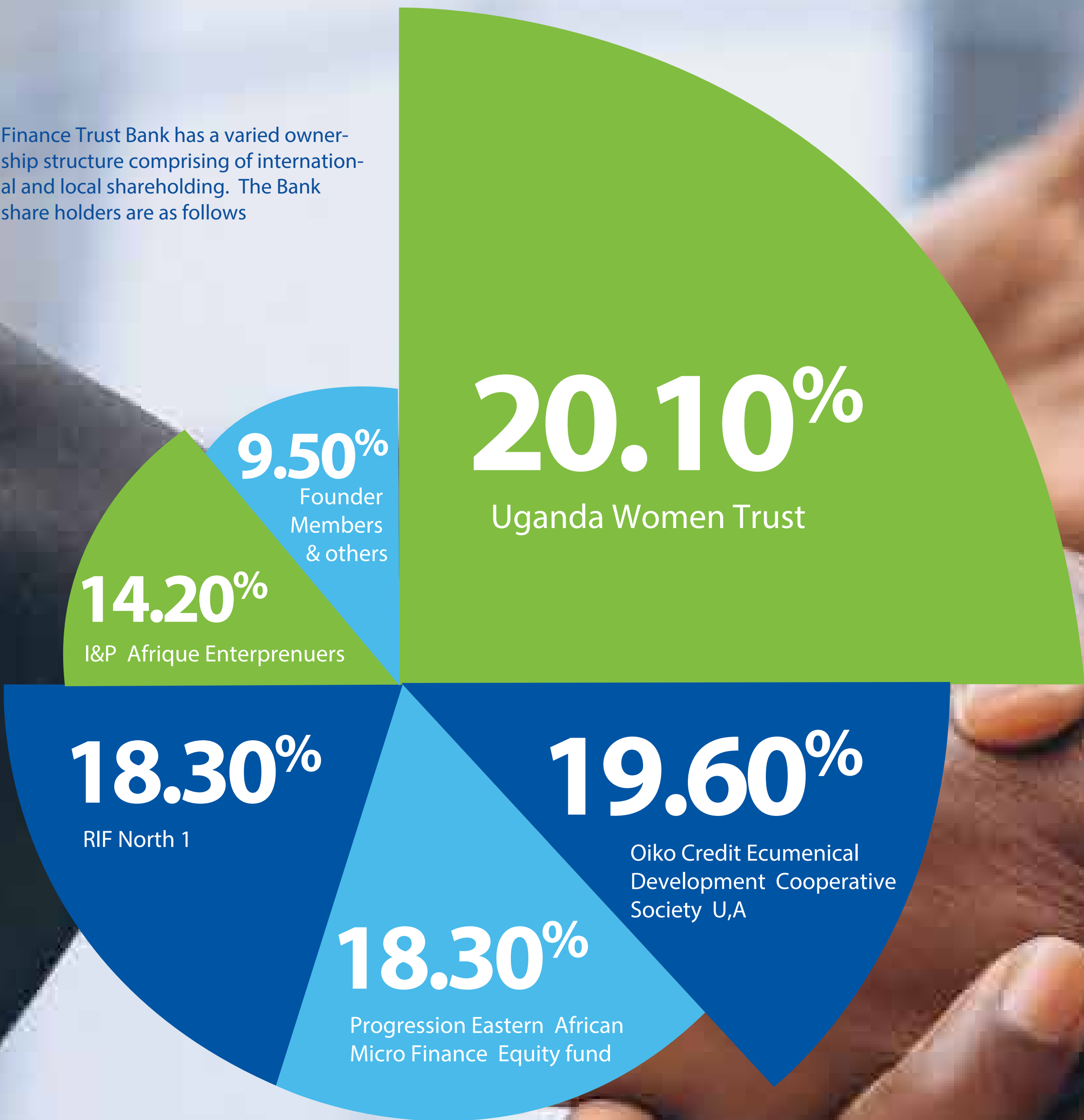


OUR PARTNERS

The bank has both local and international partners for both strategic and operational purposes. Key partnerships sealed in 2020 included The Nabagareka Development Foundation, Action Aid Uganda, Water.Org, Uganda Sanitation and Health Activity (USHA), among others.

Our major funding partners include Microfinance Support Centre, Uganda Development Bank, aBi Finance, Uganda Energy Credit Capitalization Company and East Africa Development Bank. The Bank is also supported by Craft Silicon Limited for the core banking system and system integrations.

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



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moves you

BOARD CHAIRPERSON'S STATEMENT

It is my pleasure to present to you the Bank's performance report for the year ended 31st December 2021.The year 2021 ushered in the second wave of the COVID-19 pandemic and subsequent lockdown measures, which affected Uganda's economic environment adversely.

Board Chairperson
Dr. Evelyn Kigozi Kahiigi

After tax profits increased by
57%
from shs
5.8bn to shs
9.16bn

With optimism, resilience and adaptation to the new normal and strategies that have been in place, I am glad to report that the performance of 2021 is a manifestation of a Bank that is poised to deliver to the satisfaction of all its stakeholders. The Bank continued in its journey of enabling its customers to receive services through alternative delivery channels and self-service options that define the Bank for the present and the future. We have continued to innovate in the technology space and build our systems' capacity to deliver more reliable services to our customers. We have also continued to devise ways of ensuring that our staff embrace technology and are creative and innovative in fulfilling the strategic objectives of the Bank, especially in continuing to ensure financial inclusion without the need for regular face-to-face interaction with our customers in the Post-Covid 19 era.

Financial Performance

Notwithstanding the challenges of 2021, the Bank registered growth in all the key parameters posting a net profit year on year movement of 57% from the 2020 position of Shs5.8bn to Shs9.16bn. The Bank further registered growth in total assets of 21% from Shs325bn recorded in 2020 to Shs394bn in 2021 essentially attributed to the growth in the loan book. Revenue grew by 23% from Shs75bn to Shs93bn. The Net loans also increased by 19%, from Shs203bn in 2020 to Shs243bn. With an impending full re-opening of the economy, substantial deposits were withdrawn for various reasons and thus a lesser growth in deposits of 8.3%, an actual increase in the deposit book from Shs233bn in 2020 to Shs253bn. Finally, the Bank registered an increase in total equity of 18%, an upward shift in Total Equity from Shs52bn in 2020 to Shs61bn.

This performance manifests our customers' trust in the bank and Management's commitment to delivering such a sound performance. Moreover, the above performance shows that Finance Trust Bank is set for a brighter future and is ready to take its rightful position in the market.

Our commitment to serving Women

The Bank renewed its commitment to financial inclusion through targeted mobilisation of women in groups and individuals towards accessing affordable services. The Bank realised the need to scale up its financial literacy agenda amidst a lockdown using digital communication channels, training over 3000 women equipping them with skills to run businesses and better financial management practices. Bridging the knowledge gap on financial matters is key to women's social and economic empowerment. The Bank has committed to continue this investment in skills and capacity building for economic and social empowerment.

The Bank continued to engage with like-minded partner organisations to champion the women's sanitation, health, and cultural advancement agenda. For example, during the past period, we continued our strategic partnership with Nnabagereka Development Foundation (NDF) to advance cultural and social empowerment reaching women groups and youth through the structures of the Buganda Kingdom. This allowed us a chance to reach previously unbanked women in better-organised cultural structures ready to access banking services from the bank.

The Bank continues its partnership with Uganda Women Entrepreneurship Association Ltd (UWEAL) to reach out to women-owned enterprises, ActionAid, Water.Org, Uganda Sanitation and Health Activity (USHA), National Women Council, Ministry of Gender, Labour and Social Development, Uganda Women's Network (UWONET), FIDA-Uganda (The Uganda Association of Women Lawyers), National Association of Women's Organisations in Uganda (NAWOU), among many others. These collaborations have enabled the Bank to anchor its objectives amongst its target market and defined the Bank as an actual women-centric bank. Furthermore, the Bank responded to the call to ensure a more Covid-19 free nation through an aggressive vaccination drive that saw the Bank spearhead the vaccination of over 1000 customers and non-customers. Coupled with media messages on the Bank's online platforms to ensure the success of the mass vaccination program.

Governance

The year 2021 saw a mixed picture regarding recovery from the pandemic across the various Bank outlets. The Board continued to monitor the impact of COVID-19 alongside geopolitical and international developments, not losing sight of the business through frequent engagement with Management. This guaranteed effective Board oversight and strong corporate governance. It was clear to the Board how important continued discussion, review and approval of strategic priorities were, especially in light of an ever-evolving landscape. Board oversight focused on driving profitability while strengthening resilience, setting targets that balanced business opportunities against risks and controls. The Board remained resolute on delivering the strategic objectives through a culture that promotes transparency, good conduct and trust. The importance of resilience in delivering these objectives cannot be underestimated, with the Board focused on further strengthening of risk and control culture with the help of the Risk and Audit committees.

“Our customers' confidence in the bank as their "***Bank of Choice***" is not to be taken for granted ”

The Board also spent a significant amount of time working with Management on formulating the Bank's strategic plan for the next five years, 2022/2026. During these discussions, Innovation and Digitisation strategy took centre stage as both Board and Management concurred that digital transformation is fundamental to establishing a solid foundation for exponential growth and driving positive change in delivering of bank services to its customers. In addition, new business models create shareholder value and provide a best-in-class experience for our clients.

The Board undertook a board evaluation exercise inline with the Corporate Governance regulatory framework. The findings and recommendations were discussed at Full Board and an action plan was formulated to close the identified gaps.

Digital Transformation for improved customer experiences.

The various developments in the banking space, some of which have been made real by the Covid-19 pandemic, have brought closer the reality of digitisation of banking services and the creation of more innovative ways to serve customers and compete favourably.

To respond to the current and future business needs, the Board and Management have taken steps to upgrade the Bank's core banking system to an open Application-Programing Interface (API). This new upgrade will enable further innovation in services channels, data aggregation for better analysis and decision-making, and integration with other partners to spar innovation beyond what the Bank can offer with the current system capabilities.

Our focus is to ensure that our customers enjoy a digitally enabled banking service experience that will expose them to banking in a more convenient, affordable and digitally accessible manner.

Appreciation:

I want to thank the Board of directors for being dedicated to creating long-term value for our stakeholders and standing by the Bank's Management team through uncertain times.

The customers' confidence in the bank as their "Bank of Choice" is not to be taken for granted; it is an endorsement of the good we have done, are doing and aspire to achieve soon. I want to thank our customers for their trust and contribution to the Bank's success.

Lastly, I wish to thank the entire management team and staff for the dedication to serving and commitment to the core values of the Bank unwaveringly. The year 2021, just like the year 2020, was exceptional. The Board remains cautiously optimistic for the future and is committed to delivering the Bank strategy and ultimately growing shareholder value.

Dr. Evelyn Kigozi Kahiigi
Board Chairperson


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

Switch to the Bank that moves you

MANAGING DIRECTOR'S STATEMENT

With a total workforce of over 750 permanent Staff, 100 Commission Agents and contract workers, the Bank is running alongside the competition with a mission to thrive amidst the prevailing period of uncertainty. This Management Team continues to anchor our presence in the marketplace with a focus on delivering a great customer experience

Managing Director
Annet Nakawunde Mulindwa

Economy Highlights 2021-2022

The economy continues on a recovery path albeit disruptions both locally and at the global scene. Whereas there could be a loss in growth momentum for the year 2022 relative to 2021, the growth outlook is now even stronger than earlier anticipated reflecting a broadening of economic growth as the economy steadily progresses to full recovery. Growth estimates point to a strong rebound in the year 2021 with GDP growth recorded in the ranges of 6.0% - 7.0% following a 1.5% contraction in 2020. The decision to fully re-open the economy early this year has helped to solidify investor and consumer optimism as reflected through the high frequency economic indicators. Growth momentum in the year 2022 is projected at 6.0% though this is susceptible to a number of dynamics both locally and globally.

As a Country that is reliant on Agriculture, the domestic scene remains exposed to weather vagaries that have continued to remain unpredictable.

As a net importer, the country's growth path also remains exposed to global market developments that could play out adversely to impact external demand. The latest forecast round projects a slower pace in global economic recovery for the year 2022 at levels of 4.4% down from 5.9% registered in the year 2021 on account of slower global growth than earlier anticipated, continued supply chain disruptions, tighter global monetary and fiscal conditions in response to rising inflationary pressures in advanced & emerging economies and a possible resurgence of stronger COVID-19 variants relative to the current less disruptive OMICRON variant.

The aforementioned shock possibilities notwithstanding, growth projections remain largely positive at least over the medium term. The planned government investment in infrastructure is expected to enhance the productive capacity of the economy to support the anticipated strong comeback in both domestic and external demand. The recently concluded Final Investment Decision (FID) is expected to spur inflows from foreign direct investments while the benign levels of inflation that are projected to revolve around the medium term target of 5% create room for accommodative monetary policy interventions.

Our performance

The year 2021 kicked off with a ray of optimism as the local and global economies had started to see a full reopening. This soon dwindled as we experienced yet another wave that resulted in further lockdown and advance effects to businesses and households. The year 2021 brought to light the reality and effect of the first lockdown as the government credit relief measures that had been put in place expired amidst a second lockdown.

Amidst the challenges of the day, the bank took some deliberate steps to hand hold the struggling businesses such as schools, entities in the entertainment and transport industry and corresponding value chains by adopting further measures in addition to the government credit relief measures that had been instituted. Such measures included interest and penalty waivers for loans, restructuring of facilities, deferring of payments for both interest and principle in anticipation of a full reopening and writing off facilities for businesses that had been totally closed due to the pandemic.

The bank further continued its online engagement with its customers for reassurance and devise means on how to get through the tough times with hope and optimism.

Internally, the bank focus was to retain its entire staff complement and use this slow business environment to enrich the skills set through training and capacity building. The bank did not find it necessary to reduce its workforce or reduce the pay but amidst the pandemic managed to improve remuneration for all employees to cater for the inflationary tendencies. The key driving factors for our measures of resilience were rooted in optimism for a brighter future and management used this period to build a foundation that will see an even better shift in the performance of the bank post covid 19.

Amidst the above circumstances, the bank registered growth on key performance parameters. Particularly, the net profit after tax grew by 57% from the 2020 position of shs5.8bn to shs9.16bn. The bank further registered growth in total assets of 21% from Shs325bn recorded in 2020 to Shs394bn in 2021 essentially attributed to the growth in the loan book. The bank further improved its revenue generation capacity registering a gross revenue upturn position year on year of 23% from Shs75bn to shs93bn. The net loans grew by 19% year on year from shs203bn in 2020 to shs243bn. Whereas the last quarter of the year was filled with a lot of optimism following the pending reopening which led to erosion of the banks deposit mobilization potential and thus the bank registered a drop of 10% on the customer deposit book from shs203bn in 2020 to shs183bn in 2021. Finally the bank registered an increase in total equity of 18% from shs52bn in 2020 to shs61bn.

The future

The bank is poised with optimism and an excellent growth perspective on all its business lines as seen by the performance of the last quarter of the year 2021 that saw a huge growth in the loan book as compared to the previous quarters. The bank will continue to deliver tailored services to meet customers demands. Our emphasis will be geared towards delivering these services using digital channels namely mobile and agent banking.

We believe in collaboration and as such, the bank will forge ahead with more strategic business alliances particularly targeted towards causing better transactional linkages and mutual beneficiaries product menu sharing.

The bank will further strategic alliances towards underscoring the objective of financial inclusion through increased sensitization of customers, creation of more partnerships, improvement of channel effectiveness, service uptime, product development, especially in credit assessment and origination and finally opening up of more branches in areas currently not covered but also continue the journey of creating better ambiance for our customers and staff.

During the past year, the bank continued to demonstrate its zeal and focus to the service of women as enshrined in its foundation and doctrine of "**Putting Women First**". As part of the bank`s strategic pillars, the bank continues to drive the Women agenda directly to the need for social and economic empowerment.

This has seen a deliberate recruitment of women in key positions of responsibility and building capacity for women staff through training and mentorship programs in addition to implementation of financial literacy and skills program countrywide. This life-changing program focuses at sharing life changing experiences, imparting social and business skills that are aimed at improving women businesses for growth and sustainability.

The bank further focused its mobilization activities and priorities toward banking more women individuals, SACCOs and VSLAs and this saw an increase of women customers accessing banking services and thus making a major leap into ensuring financial inclusion for women.

On behalf of management, we pledge our continued strive to serve in an innovative and customer centric manner in the years ahead.

We want to thank our customers that stood with us during such a tough year and chose us as their bank of choice in a rather competitive market place. We pledge our unwavering commitment to serve you and grow with you.

I wish to thank management and staff for their service to our customers especially during the lock down period.

I wish also to thank the Board of Directors for their stewardship and commitment to service.

Annet Nakawunde Mulindwa
Managing Director

HIGHLIGHTS FOR THE YEAR 2021:

After tax profits increased by 57% from shs **5.8bn** to shs **9.16bn**

Shareholders' equity heightened by 18% from shs **52bn** to shs **61bn**

Total assets grew by 21% from shs **325bn** to shs **394bn**

Net loans and advances increased by 19% from shs **203bn** to shs **243bn**

Customer Deposits plummeted by 10% from shs **203bn** to shs **183bn**

EXECUTIVE & SENIOR MANAGEMENT TEAM

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

Filly Lawrence
Head ICT

Christine Namata
Head Finance

Fredrick Muyanja Musoke
Head Internal Audit

Claire Muyama Nataka
Head Human Resource

Martin Acegere
Head Risk

Sarah Gwokyalya
Head Compliance

Isa Mukasa Kikomeko
Head of Treasury

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Operating **Market Environment** and **Strategic Response**

Sustainability Report

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HEAD OF BUSINESS DEVELOPMENT REVIEW

Percy Paul Lubega

The FTB five-year business plan spanning 2022-2026 is a reflection of the learning journey the bank has undergone since it transformed into a full service commercial bank in 2013. This journey has manifested with challenges including the much-needed mental transformation from a microfinance mentality to the mindset necessary for the success of a 360-degree commercial bank.

Over the past months, the bank embarked on a bottom up approach to a strategic planning process that saw the involvement of all stakeholders. The bank identified key strategic areas that are critical and under which all the aspects of the business plan are underpinned. The four areas include;

- The banks business model
- Our customer value proposition
- Our money making formula
- Key pillars of excellence

1.0 The banks business model:

The FTB business model for the coming period can be described simply as **"the digital Biz model"**

This model will see the digitization of the bank's processes front and back in an interconnected manner to have a 360 degree perspective of all operational and business processes in order to deliver a truly differentiated customer value proposition. Some of the systems and processes earmarked for digitization include;

- HR system digitization to manage staff performance better by clearly tracking each staff contribution to the bank anytime every time, this will ensure better reward for better effort
- Digitization of back office processes to ensure seamlessness and quick turnaround time E.g. digitizing the reconciliation processes
- Digitization of procurement and asset management from sourcing to disposal E.g. be able to digitally track inventory and reduce wastage
- Digitization of finance reporting and budget monitoring tools
- Digitization of the loan origination, data entry and assessment/ credit scoring tools for easy TAT and ensuring easy monitoring of performance of teams
- Digitization of the customer onboarding tools like account opening, channels onboarding, monitoring of transactions
- Customer experience handling through digital customer feedback channel and self-service menus, this will ensure digitization of service requests making it trackable and improve service quality.

2.0 Our customer value proposition:

Our strategy hinges predominantly on making a major breakthrough towards serving women.

Our customer: An economically active individual or group of people of consenting age, or micro, small and medium enterprises dealing in legally acceptable businesses in Uganda, especially women looking towards economic and social empowerment.

"Putting women first"

Through digitization, we desire to ensure seamless service delivery that is timely, affordable and meets the demands and aspirations of our customers.

We have tested and are ready to adopt as we deliver value to our customers in the following areas in respect to customer value proposition;

• Fast, convenient and reliable services-digitally
• Affordability, especially in pricing
• Accessibility through a variety of digital channels to minimize indirect costs to customers
• Superior customer service by ensuring service quality and availability
• Customer centricity in product development to meet customer needs

3.0 Our revenue model:

Key to sustainability and proof that the business model is working lies in its potential to return a descent reward to the shareholders. This foolproof further allows for more innovation, creativity, and investment in strategic and futuristic activities key to growing concern. This strategy pointed to several areas that will ensure a reward to all stakeholders.

3.1 Ensuring a diversified revenue base that includes;

- Credit services
- Money transfer services
- Investments
- Commission based services
- Trade finance services

3.2 Asset optimization thru;

- Optimum yields,
- Asset quality
- Staff productivity

3.3 Cost efficiency by ensuring;

- Affordable funding
- Operational efficiency (Cyber security, human resource management)
- Project evaluation (Cost-benefit analysis)
- Effective and efficient negotiations and contracts management
- Effective and efficient credit management (underwriting, recovery etc.)
- Effective and Efficient litigation management
- Effective and Efficient fraud management

4.0 key pillars of success

• Human capital
• Expansion and growth
• Technology

4.1 Human capital

• The inevitable adaptation of the staff to the Finance trust bank culture of excellence that will help to anchor the strategy the bank
• The key focus on retention of highly skilled ,motivated and productive workforce
• To strike a very critical balance between staff and technology in the thinking of more of technology necessitating less of head count
• Establish partnerships with suppliers that will ensure a seamless delivery of our objectives

4.2 Expansion and growth

Objective: The plan for expansion and growth will cover both physical geographical spread and segment growth by tapping into opportunities insegments not fully tapped.
Our growth and expansion will cover;
1. Opening new branches in selected areas in the country
2. Accelerated growth of liabilities and assets
3. Growth of agent network and access to global card platforms
4. Targeted growth in SME and retail banking space.

4.2.1 Physical expansion:

•The plan to cover key and strategic areas previously not covered and thus lead to loss of opportunities because of limited geographical spread
• We have earmarked to open 16 branches in the first 4 years distributed as 5, 5, 5,1 for the year 2022, 23, 24 & 25
• The physical geographical expansion will act as a foundation for the alternative channels spread and anchoring the brand in unreached areas and thus achieve financial inclusion
• Accelerated establishment of a functional agent banking network, integration with global switches like Visa and Master Card to ensure better access globally for retail and SME banking segments

4.2.2 Segment growth: -Retail segment:

Objective: Our Retail banking strategy is aimed at offering a compelling value proposition for consumer banking or personal banking to individuals. By so doing, we shall ensure that individual customers manage their money, have access to credit, and deposit their money in a secure manner.
Target market;
• Salaried employees for both private and government entities
• High-net-worth individuals
• Retirees

Key success factors

• Accessibility to a full range services and products
•Excellent customer service through effective support
• Variety of customized products and services
• Branding affinity and appeal to this segment
• Affordability

4.2.3 FTB Privileged Retail banking-Value proposition
FTB private banking will be a premium / privileged high-end offer to our retail customers and will target high networth individuals and individual net savers.

Our privileged retail offfer;
The bank will develop a compelling value proposition for the high-end retail customers of the bank brand name and competitive value proposition will be developed that will include;
• Special cards with bigger limits that are globally accepted and have a number of added benefits outside banking e.g. access to airport lounges, gym memberships, insurance, hotel lobbies, among others
• Access to the bank's corporate branch at no added cost
• Access to discounted credit facilities tied to account conduct
• High interest rates for saving balances above certain limits
• Interest earning current account
• Dedicated relationship manager
• Priority access to all our banking halls
• Discounts with FTB retail partners

The above features will be aimed towards attracting and retaining the ever-growing number of high net worth individuals.

4.3 Segment Growth: FTB SME Banking Focus

Objective:
Our plan is to become a key player in the SME market offering a range of credit and deposit product and other value added services to SMEs over the next 5years.

4.3.1 Target market
The bank will target markets using a sectoral approach and specific products and services will be developed to compete favorably in markets that the bank is less established in now;
• Trade sector
• Manufacturing and mining
• Oil and gas value chain players
• Education institutions
• Health sector
• Agriculture marketing, production and value addition
• Services sector (consultancy, hospitality, tourism value chain)

4.3.2 Strategic Initiatives for SMEs:
• Position the bank as a key player in the SME space through branding and appropriate market positioning
• Develop human capacity to serve SME needs by grooming staff and developing competences that are needed to serve them
• Develop technological and infrastructure capacity to serve the SME market
• Revisits the CRM model to address the 360-Degree needs of SMEs for both assets and liability growth focus
• Source for cheap and affordable funding to satisfy SME portfolio needs
• Create partnerships relevant to SME businesses collaborative support
• Develop a program for SME capacity building to become more bankable as part of the FTB value proposition
• Product development especially in the oil and gas sector

The FTB HUG interactive with customer experience

OUR
PRODUCTS AND SERVICES

Transaction Banking
- Cash management
- Payments & transactions
- Fees & utility collection
- Trade finance products.

Wealth Management
- Investments
- bancansurance

Retail Products
- Deposits
- Savings
- Asset Financing
- Business loans
- Personal loans

How have we tailored our business model to meet future challenges and opportunities?

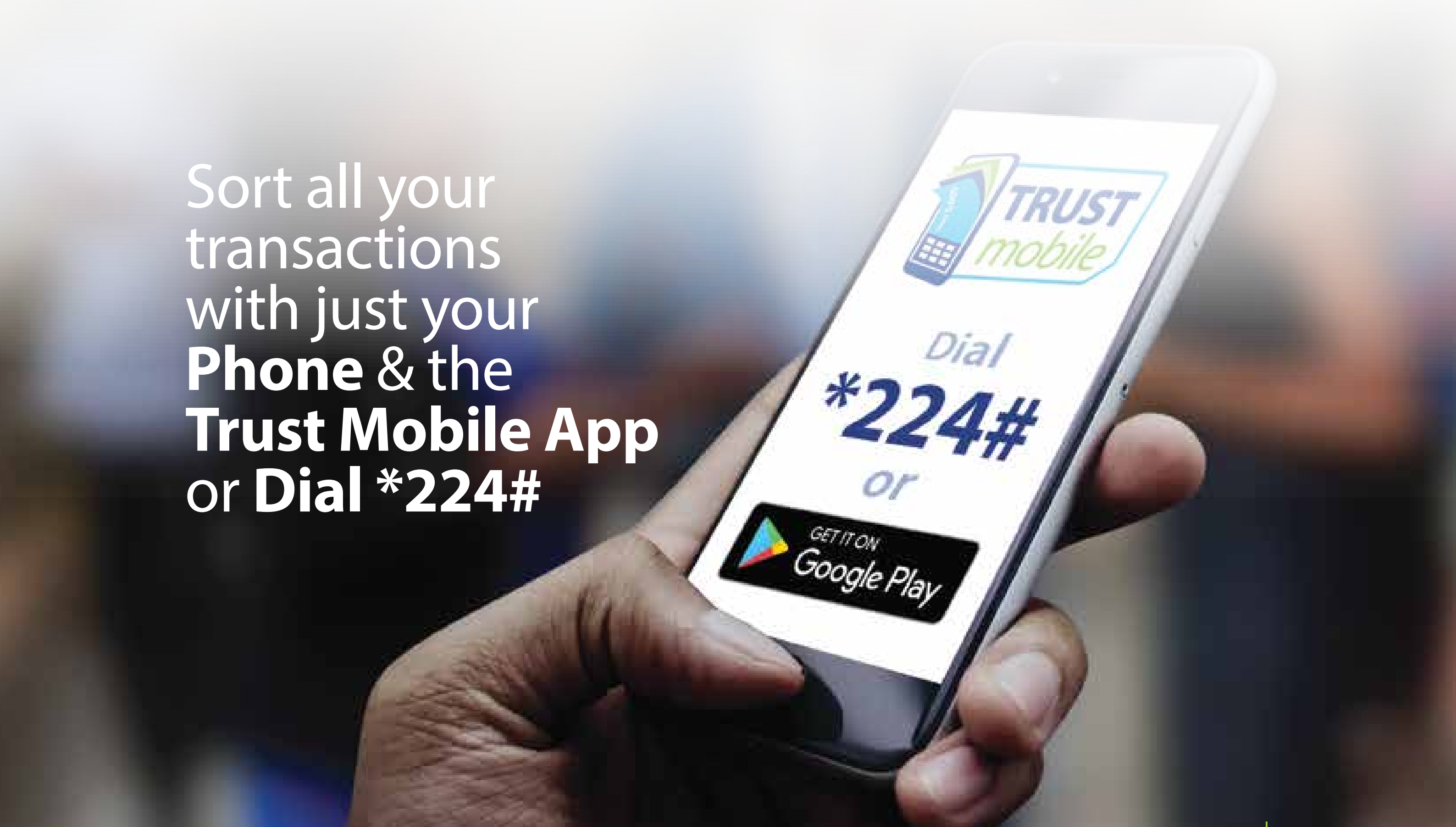
The future lies in Digitization

The Bank has already automated the IFRS9 accounting model in 2020 to eliminate dependency on the developer. The Banks's model was previously excel based one that is data-intensive & activity driven that requires a lot of man-hours for data analytics to minimize errors in the output. In 2021, we plan to roll out digitized operations for remote account opening, Digital Loan Origination and Analysis tool, and a performance monitoring tool, all geared towards improving the efficiency of the bank.

We plan to procure firewalls and carry out digital security enhancements for data protection as it traverses between the server and the service requesting device/client for both internal and publicly accessible services. The recent developments in the acquisition of digital services such as Internet, Agency, Mobile and Internet Banking, security of digital channels has become more pertinent.

Advanced security systems need to be implemented to protect the confidentiality and integrity of bank data.

We have staggered the working hours of officers especially at Head Office and built a culture of accountability even when working away from the known office boundaries. Working shifts, for example in the Call Centre are the new normal.



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

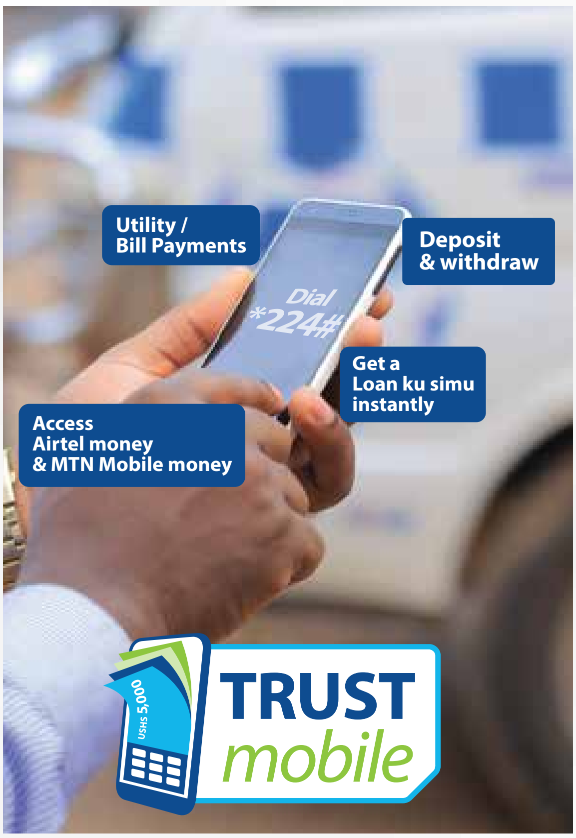
In 2019, the bank integrated on the School Pay system and this was greatly welcomed by the schools that bank with us. It is expected that this integration will ease reconciliation for the schools as well as improve our value proposition to the schools that bank with us

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 Account
Trust Savers Company Account
Trust Savers BIDCO
Mama's Safe Individual Account
No Fee Individual Savings Account
Forex Savings Account

Current Accounts

Personal Current Account
Business Current account
Forex Current Account

Trust Young Savers Accounts

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

Fixed Deposit Accounts

Other Savings Accounts

Staff Savings Account

Trust Group Accounts

Trust Group Savers
No Fee Group Savings Account
Mama's Safe Group Account
SACCO Savings
Investment Club Account
VSLA Account

Credit products

Trust 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

Trust Mobile Loan / Loan Ku Simu

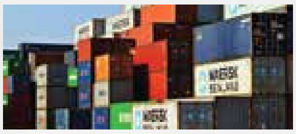
(Accessed via Trust Mobile)

Asset Finance Loans

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

Consumer loans

School Fees Loan
Renewable Energy Loan
Salary Loans
Smart Home Loan
Personal Development Loan



Trade Finance products

Bank Guarantee
LPO financing
Invoice Discounting
Certificate Discounting

Switch to the Bank that moves you

Environmental Analysis

This section considers economic developments within the Bank's operating environment and their likely effects on the economic outlook with key focus on both local and global markets. It considers relationships within the determinant factors and their role is shaping the economic prospects within the local environment.

Economic and Trading Activities

Following the contraction in global output as well as world trade growth in the year 2020 due to the COVID-19 pandemic and the associated measures to contain its spread, global economic activity started to pick up in the second half of 2020 and the recovery is recorded to have gained momentum in the second half of 2021. However, the start of year 2022 registered dampening effects of the Russia-Ukraine conflict triggering reviews in the outlook into the short to medium term.

Until end of Feb 2022, the recovery received significant support from the pickup in global economic activity largely premised on successful vaccination campaigns and the significant policy stimuli. This was largely driven by advanced economies, emerging markets and developing economies that presented with improvements in both external demand as well as international commodity prices throughout the year 2021. The World Bank in its June 2021 Global Economic Prospects Report projected a pick-up in global output by 5.6% in 2021, an upward revision from the January 2021 projections. Low income countries were however assessed to have performed below average at an output growth of 2.8% with the pace of growth largely moderated by low fiscal space to provide fiscal stimulus coupled with challenges in vaccine procurements. On the trading front, the World Bank projected a rebound in global trade with growth of 8.3% up from the contraction of 8.3% registered in 2020 boosted by the rise in trade in services such as telecommunications, spurred by the COVID-19 stay-home measures. (Bank of Uganda Annual Report 2021).

On the outlook, earlier forecasts pointed to continued recovery in global output into the years 2022 and 2023 though at a slower pace than in 2021 ie 4.3% and 3.1% respectively while World trading activity was forecast to grow by 6.3% in 2022. For the case of low - income countries, real GDP growth was projected at 2.8%, 4.7% and 5.6% respectively for the years 2021, 2022 and 2023 respectively. However, the outlook is largely contingent on what eventually happens in the Russia-Ukraine conflict as this has led to supply-chain disruptions on the account of the host of sanctions slapped on Russia viz-a-vi the role it plays in the oil & gas market coupled with the incapacity the conflict has occasioned on Ukraine in the supply of grain & other minerals. This has escalated the already elevated downside risks occasioned by the possible emergence of new COVID-19 variants and waves similar to what manifested in China recently. The resultant pick-up in global commodity prices and the related inflation that have prompted tightening of global financial conditions by the Central Banks of a number of advanced economies have diminished growth prospects and could have significantly adverse effects on highly indebted emerging markets and developing economies (Bank of Uganda Annual Report 2021: Monetary Policy Report June 2022).

Domestic economic growth prospects have been significantly diminished by the adverse global economic developments to include higher levels of inflation. Earlier assessments pointed to steady recovery in the Ugandan economy following suspension of COVID restrictions in January 2022. Real GDP growth was estimated to have reached levels above 3 percent during FY21, following a modest recovery of 0.7 percent in the first half of the FY. However, this optimism for economic recovery has been dampened by the effects of the Russia – Ukraine conflict. The pace of economic activity as reflected by the Composite Indicator of Economic Activity declined to 0.8% in the 3 months to April 2022 from 2.4% in the 3 months to January, signalling an over 65% contraction in the level of economic activity at the domestic scene. Accordingly, economic growth for the year 2022 is now projected in the range of 4.5%-5.0% a downward revision from the previous forecast of 5.5% - 6.0%. Note however that, this growth projection is still exposed to significant downside risks that include; weaker global growth, escalation of geo-political conflicts, persistent global supply chain disruptions, heightened global economic uncertainty and higher inflation that could dampen consumer confidence, heighten exchange rate volatility and could also prolong the weak growth in private sector credit. This said, medium term projections are pointing to a 6%-7% growth in economic activity (Monetary Policy Report June 2022)

Inflation and Commodity Prices

Global inflation picked up fast in the first half of 2021, fanned by the recovery in global commodity prices and strengthening in global economic activity following the reopening of economies that triggered pent-up demand. In the six months to June 2021, annual inflation in advanced economies strongly rebounded among advanced economies reaching levels as high as 5.4% relative to levels of 1.4% registered in Jan 2021. This trend has already weighed-in to catalyse inflationary pressures in the advanced economies resulting into tightening of financial conditions in both advanced, emerging and developing economies. (Bank of Uganda Annual Report 2021: Monetary Policy Report June 2022).

Following the easing of lockdown measures against the spread of COVID-19, commodity prices recovered strongly to recoup the declines posted in the first half of the year 2020 when the measures were first imposed in most of the countries around the globe. Supported by the improving prospects of global economic activity, stronger oil demand, low global oil inventories and the production cuts by the Organization of Petroleum Exporting Countries and its allies (OPEC+), crude oil prices are assessed to have increased by over 50% by close of 2021 to an average of

"The Russian – Ukraine conflict that continues to strain global supply chains with pass-through effects on international commodity prices "

USD 62 per barrel relative to the COVID period (2020) levels of USD 41.3 per barrel, posting full recovery from the over 32% decline from the 2019 (pre-COVID) levels of USD 61.4 per barrel. The current global supply chain disruptions if sustained are likely to worsen the already exceedingly high fuel prices and this could trigger break-down in developing economies (Bank of Uganda Annual Report 2021).

Non-energy commodity prices which rose in 2020 mainly due to supply chain disruptions are projected to rise further by around 22.5% by close of 2021 mainly supported by improving global demand and reduction in the supply glut. Prices for base metals were projected to rise by close of 2021 on account of the higher demand from China while prices for Agricultural commodities were forecast to rise due to a drop in the oversupply arising from lower production of some key crops. Revised forecasts for the years 2022-2023 reveal that commodity prices will revert to contraction though at a marginal rate of about 2.5% but this is largely contingent on what eventually happens with the current geo-political tensions as well as the COVID evolution.

The current pickup in international commodity prices and the surge in global inflation if sustained is expected to increase imported inflation posing an upside risk to domestic inflation. Higher crude oil prices for example have already manifested through increased domestic pump prices which has pushed the inflation trajectory on an upward. On the other hand, the projected pickup in crude oil prices may speed up Foreign Direct Investments (FDI) inflows towards the Oil sector thereby supporting the exchange rate and bringing closer the date of Uganda's first oil export. (Bank of Uganda Annual Report 2021).

On the local scene, inflation is increasing rapidly and is spreading across the basket of consumer goods and services. Annual headline and core inflation rose from 2.7% and 2.3% respectively in January 2022 to 6.3% and 5.1% respectively in May 2022 with supply and demand imbalances being the major drivers and the Russia – Ukraine conflict weighing in as a catalyst. The inflation outlook is now worsened relative to the earlier forecast rounds given the weakened shilling against the US dollar coupled with rising food and energy prices. The escalated cost of doing business will most likely push the inflation curve higher in the coming months. As a consequence, annual headline and core inflation are now forecast to average 7.0% and 6.1% respectively for the year 2022 up from the earlier projections though still within the near-term forecast range of 5±3 percentage points. It is projected to peak in the second quarter of 2023 before gradually declining to stabilize around the medium-term target of 5% in 2024.

The above notwithstanding, there exists both downside and upside risks to the inflation trajectory with a bias towards the upside. The downside risks include; the much weaker domestic demand as price pressures together with tighter financial conditions squeeze consumers' real incomes and bumper food-crop harvests that could lead to lower food prices. On the flipside, upside risks include; global inflationary pressures amidst the persistently high food and energy prices, the Russian – Ukraine conflict that continues to strain global supply chains with pass-through effects on international commodity prices, stronger tightening of monetary conditions by advanced economies as part of the strategy control inflation, higher prices in the global markets that could further weaken the shilling and stronger trade restrictions by some countries as a means to control spread of new COVID variants (Monetary Policy Report June 2022).

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Financial Markets Developments and the Outlook – Interest and Exchange Rates dynamics

Uganda recorded significant portfolio inflows from investment in treasury securities in the auctions of the period 2020-2021. This was largely supported by the global financial conditions that remained largely accommodative as part of stimuli to economic recovery by the advanced economies and it helped to keep the interest rates regime at bay. However, the recent monetary policy report pointed to escalated risks that have weighed-in to dampen the growth outlook. These were assessed to include; weaker global growth, escalated geo-political conflicts, persistent global supply chain disruptions & the heightened global economic uncertainty among others and have eventually compounded the risks to inflationary pressures. In a bid to contain demand pressures until supply catches up and therefore manage inflation within acceptable levels, the Monetary Policy Committee (MPC) decided to tighten monetary policy by raising the Central Bank Rate (CBR) from 6.5% (sustained since June 2021) to 7.5%. Further to this, the Central Bank indicated commitment to continue increasing the CBR until inflation is firmly contained around the medium-term target of 5%. (Monetary Policy Report June 2022).

Banking Sector Developments and the Outlook

During the year 2021, the Bank of Uganda concluded and issued guidelines to Supervised Financial Institutions (SFIs) for implementation of the Basel II capital accord. This was pursuant to the reviews to the Basel I capital accord by the Basel Committee on Banking Supervision (BCBS). The BCBS is the primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. In the review, the BCBS executed the following;

1) Expanded the minimum capital adequacy computation to include a capital charge for operational risk in addition to Credit and Market risks components under Basel I,
2) Gave greater recognition to credit risk mitigation instruments in the computation of credit risks,
3) Introduced a comprehensive framework for the treatment of securitization exposures,
4) Emphasized the need for SFIs to conduct robust Internal Capital Adequacy Assessment Programs (ICAAP) to determine the most optimal levels of capital required to support their business while ensuring that all the relevant risk to which they are exposed are adequately covered,
5) Introduced disclosure requirements to allow and enable other market participants to assess the risks and capital adequacy of SFIs (drawn from Basel III)

Pursuant to the above and in July 2021, the Bank of Uganda issued guidance regarding transition arrangements, requiring full compliance by 1st January 2022. The effect of this will be to require that SFIs maintain adequate capital buffers to provide cushion against upward swings in their capital requirements as the market evolves (Bank of Uganda Circular Ref: EDS.306.2 dated 30th July 2021: Implementation Guidelines for the computation of Minimum Capital Requirements).

Relatedly, the Central Bank is on course to increase the minimum level of paid-up capital to Ugx 150bn (One Hundred Fifty billion) for institutions conducting commercial banking business from the current Ugx 25bn (Twenty-Five billion). This according to the regulator is intended to; match the dynamism in the economy, incentivise shareholder commitment, enable institutions to withstand shocks and to enable convergence with regional peers among whom Uganda effectively has the lowest paid-up capital. Accordingly, qualifying institutions are required to undertake the necessary preparations so as to ensure compliance at the earliest (Bank of Uganda Circular ref: EDS.306.2 dated: August, 20th 2021: Proposed Increase in Paid-up Capital of Commercial Banks, Credit Institutions and Micro Deposit Taking Institutions)


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Solar Yange Loan
today
A loan facility for new and existing clients in both Individual & Group categories, who wish to access loan financing to acquire solar equipment to meet their household and/or business energy needs.

Switch to the Bank that moves you

Risk Review

HEAD OF RISK'S REVIEW

Martin Acegere

Finance Trust Bank takes pride in being a responsible corporate global citizen that considers environmental and social impact in all its undertakings and decision making. The Board and Management are cognizant of social and environmental threats such as global warming, air pollution, improper waste management, social injustice, forced labour, exclusion, child labour among others and has put in place strategies to directly or indirectly mitigate the aforementioned threats and their possible impact.

1. How the COVID-19 pandemic has impacted our loan portfolio, Stakeholders and responsibilities in its 2nd year.

Amidst the COVID-19 pandemic, the loan portfolio registered strong growth attributed to unlocking of pent-up demand by households and enterprises and the recovery of the economy following the partial relaxation of COVID-19 restrictions in 2021. The steady growth was however affected by the Government imposed lockdown leading to contraction of the loan portfolio in the months of June and July 2021.

Conversely, the emergence of the Delta variant and subsequent lockdown in 2021 led to slowdown in economic recovery thereby curtailing the ability of borrowers, who were still recovering from the effects of the first lockdown in 2020, leading to increase in the Non-Performing Loans.

Government adopted a phased approach in regard to relaxation of restrictions with several sectors fully opened by the end of 2021 with the exception of Education, Entertainment and Public Transport which have a strong influence on the performance of the economy. Resultantly, the economy grew at a slower rate than forecasted.

With the upsurge in COVID-19 cases and subsequent lockdown, the Bank of Uganda issued guidelines on extension of Credit Relief Measures (CRM) of 2020 for Supervised Financial Institutions to support borrowers affected by the COVID-19 pandemic. In line with the guidelines, the bank extended credit relief in form of moratoriums to its borrowing customers after assessment of the borrowers' condition.

In recognition of the change in the borrowers' condition due to slowdown in economic activity, the bank subjectively re-classified its loans leading to further increase in the Non-performing Loans. However with the full opening of the economy in 2020, management continuously assesses the subjectively classified loans and upgrades them in line with the Financial Institutions Act 2004 and amendments thereof.

Unlike the first lockdown of 2020 where restrictions on public transport had a profound impact on customer's access to bank services, in the second lockdown, majority of the customers had enrolled and were actively using the banks digital channels.

The bank prioritized staff and client safety, business continuity and job security for its workforce amidst the challenging business environment. With the increasing threat of COVID -19, the bank invoked the Business Continuity Plan with critical non-site dependent staff working from home while the critical site dependent staff were transported to and from Head office. For branches, management maintained an optimal number of staff who were transported to and from the branches which consequently affected staff productivity. However with the phased relaxation of restrictions by the Government after July 2021, staff productively improved greatly.

The bank in partnership with AAR medical insurance and Uganda Bankers Association organised vaccination drives targeting staff and bank clients to minimise the possibility of severe disease in the event that the staff or clients contracted COVID-19.

Despite the challenges imposed on the bank due to the pandemic, the bank was able to meet its obligations towards all its stakeholders as per the terms and conditions.

2. How we are working with clients to understand the potential risks and opportunities

At Finance Trust Bank, the customer is at the centre of every decision and we recognise the importance of supporting our clients during times of adversity such as COVID-19 pandemic by providing them with sustainable solutions. This is how the bank has over the years grown a strong base of loyal clients.

Due to restrictions in social gatherings, the bank conducted online financial literacy sessions facilitated by reknown business experts with the aim of empowering our customers with the knowledge and skills to remain resilient in the face of the disruptions due to COVID-19 pandemic. In addition, customers were equipped with insights on the current and future opportunities and challenges in the "new normal" based on reliable data from both public and private sources.

Internally, the bank used the financial literacy sessions to receive and address customer inquiries on bank products and services during the pandemic for customer experience improvement.

The bank has partnered with the Government of Uganda through Bank of Uganda to create an avenue for its clients to benefit from Government funds designated to support recovery of businesses post lockdown. Among the funds is the Small Business Recovery Fund that was set up to benefit small businesses to recover from the effects of the pandemic. The funds are channelled through Bank of Uganda to participating financial institutions which lend them to their customers at subsidized rates.

3. Strengthening the Bank's risk culture.

Risk culture encompasses the general awareness, attitudes, and behaviours of an organization's employees toward risk and how risk is managed within the organization. It is a reflection of the appreciation of risk and risk management within an organisation. A strong risk culture ensures that risk decisions are well aligned to the Bank's strategy and consistent across various functions.

Enhancement of the risk culture starts with the right tone at the top which is exhibited by the Board of Directors and senior management team at Finance Trust Bank. This is communicated and cascaded among the file and rank through trainings and awareness sessions. To further strengthen the risk culture, management ensures that risk management is seen and felt at the core of decisions taken at all levels of the bank and that every staff is supported to manage risks for which they are accountable for within the bank's risk appetite.

To avoid risk averseness at the expense of exploiting business opportunities, the bank has embedded risk limits in every staffs' performance indicators to allow staff the flexibility to make business decisions within the confines of the acceptable level of risk for their job roles which has led to cultivation of a strong risk culture based on accountability.

4. Enhancing information and cyber security capabilities

The global shift to electronic delivery of financial services due to the associated benefits including operational efficiency and improved customer experience has increased banks' exposure to cyber frauds arising from remote access, interface between internal systems and third party systems, and unpredictable customer behaviour while using online resources. At Finance Trust Bank we are cognizant of the cyber risks associated with the bank's pursuit of digitalizing its businesses processes and the risks therefrom.

Over the last 12 months, the bank scaled up its cyber security capacity by increasing the human resources charged with ensuring the safety of the bank's IT assets and investing in the latest cyber security tools in line with the attacks on the bank's network. The weak link for most risk management systems are people and therefore the bank focuses on entrenching cyber security culture among staff through a robust cyber security awareness programme.

5. Managing financial crime risks

Statistics from the Uganda Banker's Association indicate a year on year growth in financial crime over the last five years partly due to the increased use of technology in the delivery of services and lucrativeness of financial crime. Besides the financial loss, financial crimes erode the customer's confidence in a bank's ability to safeguard their assets and could attract heavy regulatory sanctions.

The bank has a zero tolerance stance on financial crime and has put in place policies and procedures for the prevention, identification and reporting of financial crimes in line with International and local laws. The bank has made public the whistle blow phone lines and email addresses for reporting of actual or suspected financial crime. The bank's Management Information Systems have the capability to identify suspicious transactions based on transaction acceptance criteria and sends notifications to the accountable officers for analysis and resolution. In addition to the system support, the bank continuously creates awareness among staff on the prevention, identification and reporting of financial crime and has adopted a policy of "if you see it, you must report it" to ensure that financial crime is timely detected and reported.

6. Managing ESG risks

At Finance Trust Bank, we are conscious of the impact of our operations on the environment and the communities that we operate in and therefore deliberately avoid financing or engaging in activities that hurt Mother Nature and in principle, the bank does not extend funding to businesses that are on the International Finance Corporation (IFC) exclusion list. With our focus on extending financial services to women who constitute the largest proportion of people involved in agricultural activities, we fully recognise the importance of sustainable usage of the environment on the performance of our Agriculture portfolio which relies heavily on natural conditions such as optimal rainfall and sunshine.

The Bank therefore continuously seeks for partners to support it in enhancing its capabilities in delivering financial services aimed at reversing the impact of climate change or prevent any further impact on Mother Nature. The bank has partnered with East African Development Bank to develop a Bio-diversity climatic financing product with associated management tools under Technical Assistance programme. In addition, EADB shall provide the bank with funding through a line of credit for onward lending to customers who meet the criteria for accessing the Bio-diversity climatic financing product.

7. Our risk profile and performance in 2021

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

Strategic risk is defined as the risk of loss arising from current and prospective adverse impact on earnings or capital arising from incorrect or inappropriate business decisions, improper implementation of decisions or lack of responsiveness to industry changes. The prevalence of the COVID-19 Delta variant which peaked in June 2021and resulted into Government imposed second total lockdown till end of July 2021 cut back gains registered by households and enterprises since the start of the year 2021. With restrictions on gatherings, public transport, night time curfew, the Bank's operations and customer's businesses were severely affected with negative impact on execution and achievement of the strategic plan. Whereas Government relaxed the restrictions in a phased manner, key sectors such as Education, Entertainment and Public transport remained under lockdown leading to slow recovery of the economy.

Credit risk refers to the risk of loss arising from failure by a borrower or counterparty to meet their obligations as per the terms and conditions. Over the course of the year, the Bank registered a steady month on month growth in the loans portfolio except in the months of June and July 2021 when the Government instituted a lockdown. In terms of the loan quality, the bank registered an increase in Non-performing Loans on account of the emergence of the Delta variant and subsequent lockdown in 2021 that led to slowdown in economic activity thereby negatively affecting the ability of borrowers to meet their loan obligations. In recognition of the changes in the operating environment characterised by slow economic activity occasioned by the resurgence of COVID-19 virus, the bank subjectively re-classified loans leading to further increase in the Non-performing Loans.

Operational Risk is defined as the risk of loss arising from failed or inadequate people, processes, systems and external events. Whereas, operational risk is inherently high in the bank due to the bank's wide branch network, multiple delivery channels, large number of products offered, large staff complement coupled with high reliance on ICT in service delivery, it was excercabated by the emergence of COVID-19 Delta virus and the resultant restrictions by the Government of Uganda. The Bank registered 20 COVID-19 positive staff cases in 69 branches with some staff having their immediate relatives falling sick or losing them to the virus leading to absence from office hence low productivity, disruptions in operations due to revision of operating hours in line with curfew hours, reduction in productivity by staff, slow resolution of issue due to immobility leading to service interruptions and general impact on staff morale and mental well-being.

> "Risk identification is a process that involves finding, recognizing, and describing the risks that could influence the achievement of the bank's strategic objectives. "

The bank invoked its Business continuity plan to ensure minimal disruptions to service delivery through revision of limits on channels to encourage clients use the electronic channels such as ATMs, Mobile banking, Internet Banking and Agency banking to circumvent the restrictions in transport. The Human Resource department was instrumental in engaging staff to ensure that their physical and mental well-being was taken care of by inviting medical specialists to deliver health talks to staff.

Liquidity risk is defined as the risk of loss arising from inability to meet commitments, repayments and withdraws as they fall due in terms of time, place and in the required currency. The bank remained adequately liquid in light of its business needs and regulatory requirements however the liquidity ratios contracted on account of the strong growth in credit portfolio and slow growth in the bank's deposits portfolio which forms the largest and cheapest source of liquidity. In order to bridge the gap, the bank drew down on arranged stand-by facilities from Symbiotics, EADB and ABi. The stress tests confirmed that the bank has adequate stock of liquid assets to meet its obligations under both normal and stress conditions.

Interest rate risk is the risk of loss arising from adverse movement in interest rates. In the period under review, interest rates remained largely stable on the back drop of the stable Treasury Bill rates and the Central Bank Rate aimed at encouraging economic activity post lockdown period while remaining cognizant of the inflationary pressures driven mainly from external forces. The low interest rates on Government instruments affected the bank's earnings from its investment portfolio.

Compliance risk – this is the risk of loss arising from failure to comply with laws, regulatory guidelines and internally set policies and limits. The bank did not register any fines or regulatory sanctions arising from non-compliance to laws and regulatory guidelines. In regards to internal policies and procedures, there was a noted deterioration in compliance to internal policies with 9 out of 33 audited units rated unsatisfactory in 2021 in comparison to 3 out of 42 audited units in 2020.

Legal risk remained relatively unchanged in the period with few isolated legal suits against the bank with no significant suits levied against the bank. However it's important to note that the risk is anticipated to increase as defaulting clients seek legal redress to frustrate the bank form recovering their Non-performing Loans. Whereas the bank did not register substantial increase in the number of legal suits, notable cases were registered by peer banks in the banking industry.

Overall, management with the support of the Board of Directors was able to contain current and emerging risks which led to an unqualified Audit opinion and Year to date profit of UGX 9.155bn.

8. Our risk management approach

The Board of Directors has the ultimate responsibility for approving the level of risk undertaken by the bank. It approves the overall business strategy and the policies to ensure that senior management is fully capable of executing the strategic plan in a manner that limits risks.

The Bank's approach to risk management is articulated in its Risk strategy which encompasses establishment of the context in which the bank manages risk by articulating its strategic objectives, the external and internal parameters to be taken into account when managing risk, and the scope and risk criteria for accepting the risk. The bank achieves this through coordinated set of activities for identifying, analyzing and evaluating whether the risk should be modified through risk treatment in order to satisfy its risk acceptance criteria.

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 of occurrence and consequences of each identified risk and deciding which risks 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 based on the ranking of Low, Medium or High 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. The likelihood is determined from past risk experiences by the bank or other players in the local/global banking industry.

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. Risk monitoring ensures that Finance Trust bank modifies or changes the risk treatment strategies as the risks evolve.

9. Risk Appetite Statement and Internal Capital Adequacy Assessment.

The Bank's risk appetite statement articulates the aggregate level of risk that Finance Trust is willing to accept, or to avoid, in order to achieve its business objectives. It states that "Finance Trust Bank shall take a cautious and conservative risk approach in all its banking business. This shall be manifested in the way risk decisions are made across all business units to ensure that risks are clearly identified, understood and mitigated"

The Bank has set risk tolerance limits that represent the Bank's aggregate risk appetite statement to business lines, regulatory, statutory and prudential requirements, funder's covenants, counterparty exposures and balance sheet allocations. The limits extend to include approval of allocations, disbursement and expenses in line with the bank's overall strategy. The limits that are clearly measurable help the Bank from unknowingly exceeding its risk capacity as market conditions change and act as an effective defense mechanism against excessive risk-taking.

The Bank conducted an Internal Capital Adequacy Assessment as at 2021 which revealed that the Bank was well capitalised to meet its regulatory and Internal capital needs under normal and stress conditions for the year 2022 based on the strategic plan for 2022 – 2026 and the Bank of Uganda guidelines on stress testing and Internal Capital Adequacy Assessment Process.

Get a Business Loan

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.

Shareholders & Board of Directors

Switch to the Bank that moves you

BOARD OF DIRECTORS

Dr Evelyn Kigozi Kahiigi
Board Chairperson

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

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

Annet Nakawunde Mulindwa
Managing Director

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

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 13 years of progressive banking experience in the fields of treasury and financial management, International business, Risk, Compliance and Operations.

Previously, she worked with UBA Uganda and Centenary bank.

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

Mr. Tor. G. Gull

Director

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

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

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

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

Loïc De Cannière

Director

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

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

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

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

Mary Oduka Ochan

Director

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

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

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.

CPA Dr. Albert Richards Otete

Director

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

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

Grace Namulinda Aliakai

Director

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

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

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

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

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

Gervase Ndyanabo
Director

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

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

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

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

Jeremy Hadjenberg
Alternate Director

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

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

Patricia Kemirembe Katende
Company Secretary / Head, Legal

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

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

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

BOARD REPORT

The Board Committees' leadership and composition remained the same as represented below:

No.	Board Assets and Liabilities Committee - BALCO	Title
1.	Lydia Koros	Chairperson
2.	Loic de Canniere	Member
3.	Mary Oduka Ochan	Member
4.	JL de Montesquiou	Member
5.	Annet Nakawunde	Member/MD
6.	Annette Kiggundu	Member/ED
	Board Compensation Committee - BCOMC	
1.	JL de Montesquiou	Chairperson
2.	Robert Kirunda	Member
3.	Mary Oduka	Member
4.	Gervase Ndyanabo	Member
	Board Risk Committee - BRC	
1.	Tor G. Gull	Chairperson
2.	Albert Richards Otete	Member
3.	Grace Aliakai	Member
4.	Annet Nakawunde Mulindwa	Member/MD
5.	Loic De Canniere	Member
6.	Annette Kiggundu	Member/ED
	Board Credit Committee - BCC	
1.	Grace Aliakai	Chairperson
2.	Tor G. Gull	Member
3.	Robert Kirunda	Member
4.	Lydia Koros	Member
5.	Annet Nakawunde Mulindwa	Member/MD
6.	Annette Kiggundu	Member/MD
	Board Audit Committee - BAC	
1.	Albert Richards Otete	Chairperson
2.	Gervase Ndyanabo	Member

DECISIONS AND RESPONSIBILITIES OF BOARD COMMITTEES

Board Assets and Liabilities Committee

The core role of BALCO is development of strategy for the Bank in terms of the mix of assets and liabilities, given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, foreign exchange exposure, and capital adequacy.

Board Compensation Committee

The principal role of the BCOMC is to assist the Board with policy formulation and oversight on matters pertaining to the appointment of Board and Senior Management, remuneration, Organizational structure, staff welfare, staff quality, competency and productivity, conducive working environment

Board Audit Committee

The principal role of the BAC is to assist the Board in raising the standards of corporate governance in the areas of improving the quality of financial reporting, Strengthening the effectiveness of the internal and external auditing functions, Strengthening the control environment, Increasing the stakeholders' confidence in the credibility and stability of the institution;

Board risk Committee

The cardinal responsibility of the BRC is to ensure quality, integrity and reliability of the Bank's risk management by providing oversight of the senior management's activities in managing credit, market, liquidity, operational, legal and other risks of the Bank.

Throughout the year, focus has been placed on the impact of COVID-19 and how the Bank has responded to and managed the related risks. On a regular basis, the Committee received and discussed a paper on COVID-19 risks, which provided an assessment of the Bank's response to COVID-19.

Operational resilience became a significant focus for the Committee as COVID-19 unfolded and various lockdowns across the Bank's network came into effect. Operational and Industrial Control System (ICS) risks, resulting from colleagues working from home (WFH) were carefully monitored, to ensure that these risks were not increasing or manifesting themselves in different ways.

The Board Risk Committee ("BRC") exercises oversight on behalf of the Board of the key risks of the Bank and makes recommendations to the Board on the Bank's Risk Appetite Statement. These risks include, amongst others; credit, traded, capital and liquidity, operational and technology, reputational and sustainability, compliance, information and cyber security and model risks.

Board Credit Committee

The principal role of the BCC is to assist the Board in monitoring the quality of the Credit portfolio and to ensure compliance with regulatory requirements.

Board meetings

The quarterly meetings took place in the months of March, June, September and December, 2021. However, owing to the crisis mode that the Bank operated, the Board Assets and Liabilities Committee held a number of adhoc meetings on a monthly basis to check the health of the business and to provide guidance to Management which was operating in crisis mode.

Board attendance in 2021

The Board meetings in 2021 were well attended by both substantive Board members and in a few instances, the alternate Directors.

Board trainings

The Bank believes in continuous professional development for its Board members. Business is quite versatile today and requires constant skilling to remain relevant. Some of the capacity building sessions for the Board in 2021 were the 12th Board Audit Committee Workshop by the Institute of Chartered Public Accountants Uganda (ICPAU), Board Effectiveness- Role of the Board and Business Strategy - Implementation and Execution Practices for the Board both offered by the Institute of Corporate Governance in Uganda (ICGU) among others.

Board Effectiveness

This is a principle of measuring the board effectiveness against its core mandate of providing oversight over Management. The Board evaluation exercise was concluded and will inform the training needs assessment for the subsequent period. This is geared to providing opportunities for improvement in the areas of weakness for the Board.

AGM

The Annual General Meeting for the Company was held on the 23rd June, 2021. The meeting was held virtually owing to the travel restrictions imposed by governments internationally in a bid to control the spread of Covid-19.

The Annual General Meeting for 2022 is scheduled to take place on 24th

Viability statement

The Board of Directors' assessment of the prospects of the Bank over the next two years has high expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due. The directors have assessed the key factors, including the macro-economic environment arising from the geo-political tensions in Russia and Ukraine as well as the effects of COVID-19 likely to affect the Bank's business model and strategic plan, future performance, capital adequacy, solvency and liquidity taking into account the emerging risks as well as the principal risks. The viability over a period of two years, as it is within both the Bank's strategic planning horizon is promising and return on equity is projected to be reported positively.

Plans for 2022-2023

There will be efforts made to continue to drive stakeholder engagement with more events (virtually, if necessary). Continue focus on technology, fostering an environment to drive the women agenda in line with the Bank's motto of "putting women first" and enhancing every customer's banking experience across all our channels.

Having considered all the factors outlined above, the directors confirm that they have a reasonable expectation that the Bank will continue in operation and meet its liabilities as they fall due over the period of the assessment up to 31 December 2023. The Bank Strategic plan for the same period was also reviewed and approved by the Board.

STAKEHOLDER ENGAGEMENTS

The Bank recognizes the significance of stakeholder consideration and engagement as part of Management discussions and decision-making. A key enabler of stakeholder engagement in 2021 was Management support for online engagements with stakeholders, key market visits.

Regulator and Government Agencies

The Bank's Executives and Management regularly engage with relevant authorities across our footprint. As with most forms of stakeholder engagement during 2021, physical meetings were modified to virtual interactions and calls as the year progressed. The Bank engaged with Bank of Uganda and other government agencies, including local government offices in the regions via a number of forums, either collectively or individually to manage the relationships, report on compliance and audits as necessary.

Customers

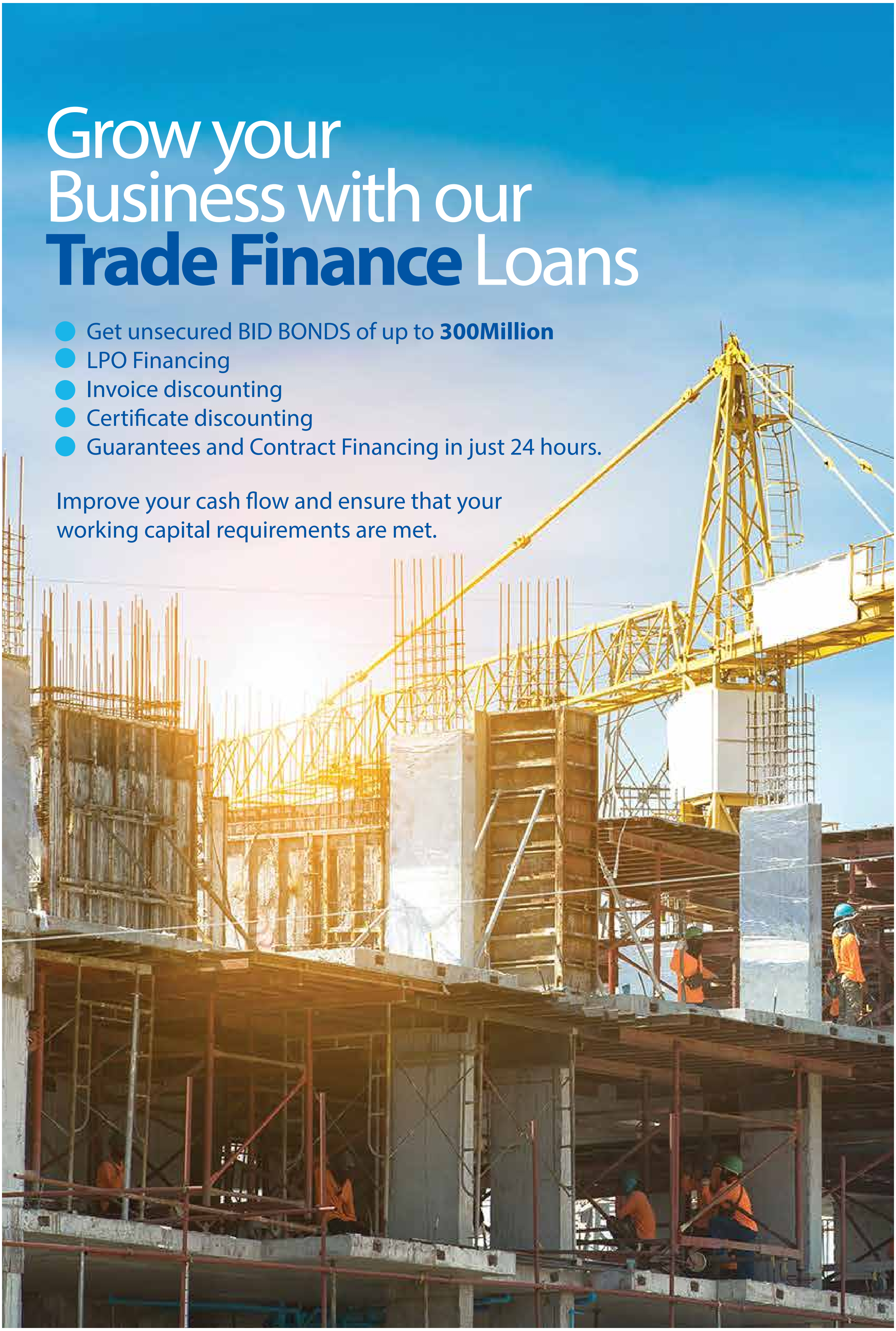
Due to travel restrictions through 2021, the Bank's top Management was unable to physically reach majority of the customers in our regional markets. We worked through our branch management structures to have critical meetings and manage relationships. As such, external and internal speakers provided input to the Bank's online discussions with customers throughout the year, which covered some key societal issues around the evolving financial landscape, the longer-term impact of the pandemic and health issues.

Employees

The Bank is also keen on maintaining a genuine and open two-way dialogue with employees. As with other forms of stakeholder interaction this year, traditional approaches to employee engagement were adapted in light of the pandemic. The use of e-mailers and virtual meetings was done frequently to keep the teams abreast with the underlying issues as well as driving motivation for performance.

Shareholders

The Managing Director and Company Secretary maintain contact with the Board of Directors, other directors as well as shareholders to share regular updates on shareholder matters, including strategies to transform our business for improved returns, reports on market forces and requirements by the Regulator.


Grow your
Business with our
Trade Finance Loans
Get unsecured BID BONDS of up to 300Million
LPO Financing
Invoice discounting
Certificate discounting
Guarantees and Contract Financing in just 24 hours.
Improve your cash flow and ensure that your
working capital requirements are met.

2020 HIGHLIGHTS
PICTORIAL

38

years serving customers

Finance Trust Bank meets DPF

The Managing Director Presents a portrait to Ms. Geralding Ssali Busuulwa who was invited to speak with staff at a Women's day Breakfast in Head office.

Launch of Women's Stabex Gas loan

Central Branch staff dressed in floral theme outfits in tune with the bank's theme for commemoration of Women's Day.

Prof. Balunywa conducting Financial literacy

Donations to church- East Rwenzori Diocese

Managing Director - officiating the opening of the remodeled Central branch

Switch to the Bank that moves you

Financial Statements

HEAD OF FINANCE'S REVIEW

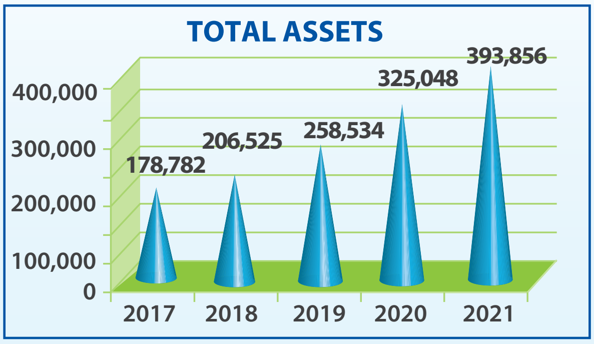
Christine Namata

2021 was undoubtedly a year of severe economic headwinds characterized by stringent COVID-19 containment measures that clouded economic growth momentum.

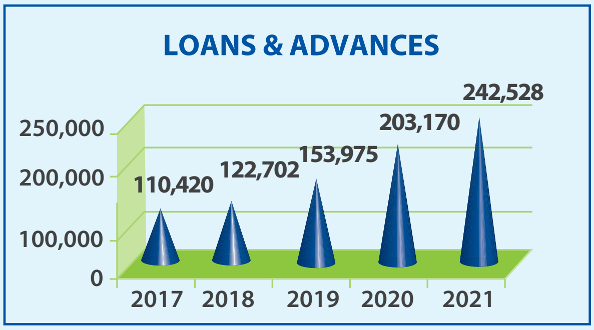
However, a number of defensive initiatives by management positioned the Bank in a safe harbor to absorb the shocks posed by the Pandemic and other challenges within the Bank's operating domain.

The 2021 performance showcased the Bank's resilience to adversities as evidenced by the strides registered on several key performance indicators.

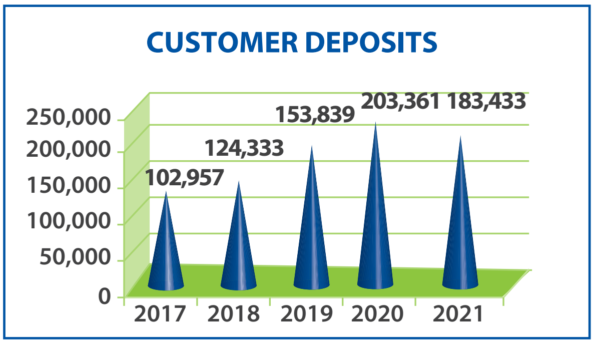
Insights into the performance are highlighted below:



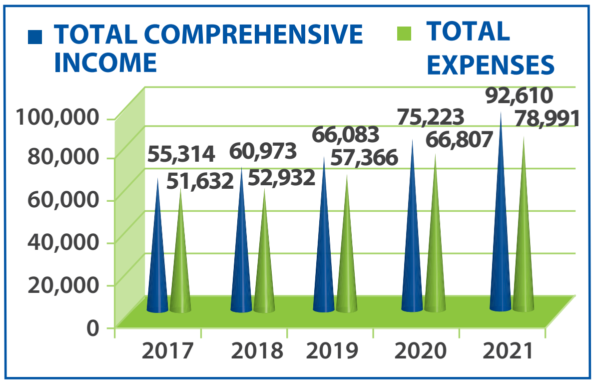
The Bank recorded a 21% YoY growth in its Asset book closing at Ugx394bn from Ugx325bn recorded in 2020. This position was mostly driven by 19% growth in the loan book and 56% growth in the investment book.



Net loans and advances grew by 19% year on year with major growth realized in the micro segment that stood at 53% in line with the Bank's Strategic focus of uplifting the low income population especially women. Number of borrowers recorded an upward shift closing at 37,032 from 33,057.

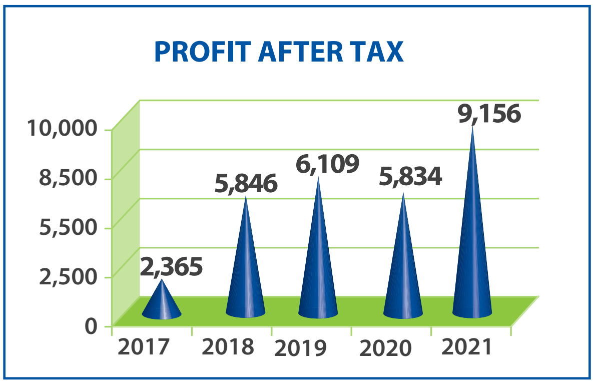


A big portion of the bank's deposit clientele lies in the micro segment that was significantly impacted by effects of COVID-19 which weakened their ability to save. Consequently, the bank's customer deposits plummeted by 10% from Ugx203bn registered in 2020 to Ugx183bn in 2021. Albeit the recorded drop in deposits, the number of active savers grew by 15% closing at 236,453.

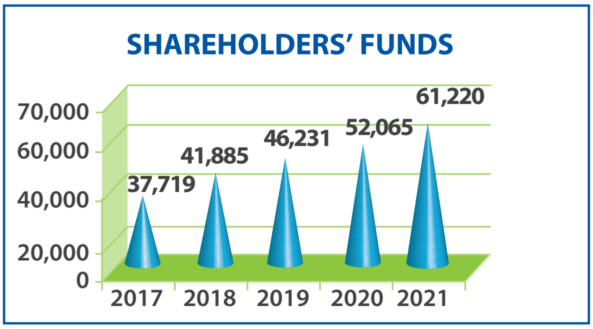


The bank recorded a remarkable growth in its revenue base of 23%, the highest ever in 5 years with an 80% contribution from the loan book. This growth was higher than the 18% growth registered in costs mainly owing to Management's focus on cost optimization.

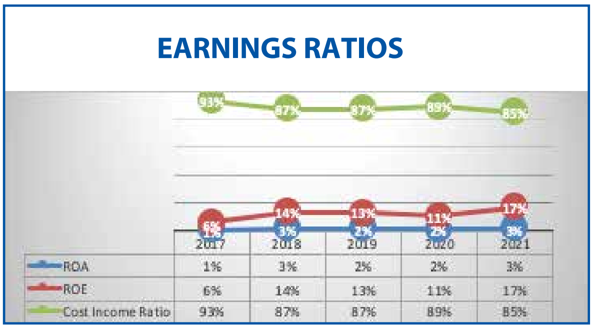
Staff costs continued to contribute the highest towards the bank's cost base at 40% in line with Bank's strategic direction of enhancing staff motivation in order to attract and retain talent.



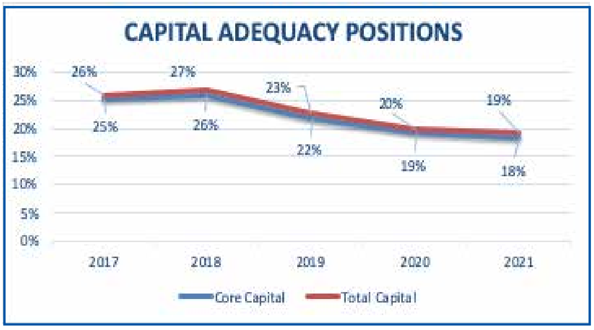
The Bank recorded a notable 57% growth in profitability owing to higher growth in revenues at 23% relative to the 18% growth in costs.



The Bank remained steadfast in maximizing the value of its shareholders with an 18% YoY upward shift in total equity from Shs52bn in 2020 to Shs61bn.



The bank registered improvement in the cost to income ratio mainly as a result of faster growth in revenue of 23% than costs at 18%. Return on Assets (ROA) and Return on Equity equally improved by 1% & 4% percentage points respectively on account of growth in the bottom-line.



The Bank remained adequately capitalized at 18% and 19% for core and total Capital in line with the minimum regulatory capital requirements of 12.5% and 14.5% for core and total capital respectively. The ratios however registered a declining trend on account of higher growth in the Bank's risk weighted assets relative to the growth in equity. The Bank remains very alert on ensuring that at no time does the bank fall off the required minimum capital requirements prescribed by the FIA 2004(amended) 2016.

Overall, thriving in the challenging environment show-cased our agility and resilience and our innate capacity to respond and rebound from significant challenges. We remain deliberate and intentional about driving efficiency in all aspects of the Bank's business operations and we are optimistic that this will see the Bank's performance transcend to greater heights.

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DIRECTORS

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

Dr. Evelyn Kigozi Kahiigi*	Chairperson
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
Dr. Albert Richard Otete*	Non-Executive Director
Mr. Kevin Kamemba***	Non-Executive Director – Alternate to Loic De Cannie're exited wef 7th June 2021
Mr. Gervase Ndyanabo*	Non-Executive Director

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

Company Secretary

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

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	Kalerwe	Bugiri	Pallisa
Central	Owino	Busia	Arua
Entebbe	Kampala road	Tororo	Kitintale
Mukono	Kikuubo	Mbale	Kalangala
Lugazi	Lwengo	Kumi	Nateete
Kayunga	Gomba	Soroti	Nansana
Masaka	Jinja	Ntungamo	Kapchorwa
Katwe	Iganga	Kamwenge	Mbarara
Nakivubo	Kamuli	Kabarole	Ishaka

BANKERS

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

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

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

BANK'S SOLICITORS

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

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

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

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

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

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

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

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

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

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

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

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2021, which disclose the state of affairs of Finance Trust Bank Limited ("the Bank"). The financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act of Uganda,2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda.

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

Results and dividend
The profit for the year of Shs9, 155 million (2020: Shs5,834-million) has been taken to retained earnings. The directors recommended 20% payment of dividends for the year ended 31 December 2021 Shs1, 831 Million (2020: Nil).

Directors
The current members of the board are shown on Page 1.

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

Board of directors
The Bank has a broad-based board of directors. As at 31 December 2021, the Board of Directors consisted of 12 members. The board functions as a full board and through various committees constituted to oversee specific operational areas. The board has constituted five committees. These are the Assets and Liabilities Committee, Audit Committee, Risk Committee, Credit Committee and Compensation Committee. All board committees are constituted and chaired by non-executive directors. The membership on these committees at 31 December 2021 was as follows:

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

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

Shareholder exit transaction
The Bank identified an investor who is undergoing the BOU vetting process.

External auditor
The Bank's auditor KPMG Certified Public Accountants continues to be in office in accordance with the provisions of section 167(2) of the Companies Act,2012 Laws of Uganda and section 65(1) of the Financial Institutions Act 2004, (as amended in 2016) Laws of Uganda.

Approval of financial statements
The financial Statements were approved and authorised for issue by the Board of Directors on 23rd March 2022

By order of the Board

....

Company Secretary
Date: 25th April 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Bank's directors are responsible for the preparation and fair presentation of financial statements for Finance Trust Bank Uganda Limited ("the Bank") set out on pages 12 to 77, comprising the statement of financial position as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda.

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

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

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

Approval of the financial statements

The financial statements of Finance Trust Bank Uganda Limited, were approved and authorised for issue by the board of directors on 23rd March 2022.

……………………..……………..………………..
Chairperson

Date: 25th April 2022

……………..……………………..……………..
Director

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Finance Trust Bank Limited ("the Bank"), set out on pages 12 to 77 which comprise the statement of financial position as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended 2016).

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Impairment of loans and advances to customers **Refer to Notes 3,4(u),4(d),6(a), 19(a) and 19 (b)** Impairment of loans and advances to customers is based on the Expected Credit Loss and is considered a key audit matter because the directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. The COVID-19 pandemic is affecting the economy and business activities in the country and may trigger an economic decline. To mitigate the impacts of COVID-19, the Bank launched aid initiatives for customers, implementing various measures such as, according penalty-free moratoria and making financing and liquidity facilities more flexible. All of these aspects have an impact on the parameters considered by the Bank when quantifying the expected credit loss on financial assets (macroeconomic variables, customers' net income, value of pledged collateral, probability of default, etc.) As at 31 December 2021, the Bank's loans and advances to customers amounted to Shs242.2 billion, representing 62% of total assets, with total Expected Credit Loss ("ECL") allowances of Shs 5.6 billion recognized.	**Our audit procedures in this area included:** • Performing end to end process walkthroughs to identify and assess the design and implementation and testing the operating effectiveness of key controls used in the system applications and controls in the ECL processes. • Selecting a sample of facilities from the Bank's loan book including borrowers from the economic sectors most affected by COVID-19 and carrying and evaluating whether facilities sampled are correctly staged/classified and valued in accordance with on IFRS 9 considering the bank's definition of significant increase in credit risk and default. • Evaluating the appropriateness of the Bank's ECL impairment methodologies by involving our internal financial risk modelling specialists to benchmark them with the requirements of IFRS 9. • Challenging the appropriateness of the assumptions used in modelling the probability of default, loss given default and exposure at default by benchmarking them against the local economic variables and historical information for reasonableness. • Obtaining on a sample basis the key inputs used in the ECL calculations i.e. macro economic data and Exposure At Default variables by agreeing the key inputs to source information and documentation. • Reperforming the probability of default computations and comparing them compared the results with the probability of default in the ECL model.

Report on the Audit of the Financial Statements (Continued)

Key Audit Matter	How the matter was addressed in the audit
The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's application of Expected credit losses are: • 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 aspect of the Bank's ECL modelling approach. • Significant Increase in Credit Risk ('SICR') - the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12-month or lifetime provision is recorded. • Economic scenarios - IFRS 9 Financial Instruments requires the Bank to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them.	• Evaluating key aspects of the Bank's SICR considerations assessing the qualitative and quantitative factors used by management in their evaluation of the classification of the financial instruments into stages 1, 2 and 3. • Challenging key assumptions made by the Bank in determining forward looking information by involving our internal financial modelling specialist to assess the completeness of the macro economic variables considered, reasonableness of the overlays made to macro-economic variables to model the economic scenarios and probability weightings made to the economic scenarios and the correlation between the bank's credit risk parameters and the macro economic variables. • Evaluating the adequacy of the financial statements' disclosures, including disclosures of key assumptions and judgements in accordance with IFRS 7 Financial Instruments: Disclosures.

Other Information

The directors are responsible for the other information. The other information comprises information included in the Finance Trust Bank Limited Annual Report and Financial Statements for the year ended 31 December 2021 but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, and in the manner required by the Companies Act, 2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended 2016) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Audi Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

— Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

Report on other legal and regulatory requirements

As required by the Companies Act, 2012 Laws of Uganda, 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, income statement and other comprehensive income 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.

KPMG
Certified Public Accountants
3Rd Floor, Rwenzori Courts
Plot 2& 4A, Nakasero Road
PO Box 3509
Kampala Uganda
25th April 2022

....
CPA Stephen Ineget

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2021

	NOTE	2021 Shs 000	2020 Shs 000
Interest income	7	64,106,341	53,376,077
Interest expense	8	(17,576,008)	(13,297,765)
Net interest income		**46,530,333**	**40,078,312**
Fees and commission income	9	25,931,095	19,916,423
Other operating income	11	1,937,267	1,523,008
Net foreign exchange income	10	635,279	407,346
Total operating income		**75,033,974**	**61,925,089**
Impairment losses on financial assets	19 (b)	(4,604,769)	(4,606,463)
Personnel expenses	13	(31,582,346)	(28,709,100)
Depreciation & amortization	12 (a)	(6,838,793)	(5,107,985)
Operating expenses	12 (b)	(18,389,431)	(15,085,982)
Profit before income tax		**13,618,635**	**8,415,559**
Income tax expense	14	(4,462,885)	(2,581,540)
Profit for the year		**9,155,750**	**5,834,019**
Other comprehensive income		-	-
Total comprehensive income for the year		**9,155,750**	**5,834,019**
Earnings per share - basic and diluted (Shs per share)	33	**0.330**	**0.210**

The notes set out on pages 64 - 111 form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER 2021

Assets	NOTE	2021 Shs 000	2020 Shs 000
Cash and balances with Bank of Uganda	15	43,060,406	41,576,562
Deposits and placements with other Banks	16	49,670,352	41,290,404
Government securities	17	25,912,416	10,130,072
Net loans and advances to customers	19(a)	242,527,791	203,169,989
Other assets	18	6,394,501	5,365,350
Current income tax recoverable	14	-	13,760
Right of Use asset	32 (a)(i)	14,227,894	134,862
Property and equipment	20	9,071,221	8,326,043
Intangible assets	21	2,991,114	12,727,156
Deferred income tax asset	26	-	2,313,547
TOTAL ASSETS		**393,855,695**	**325,047,745**

STATEMENT OF
EQUITY AND LIABILITIES

Liabilities	NOTE	2021 Shs 000	2020 Shs 000
Customer deposits	22	183,432,709	203,361,117
Deposits and balances due to other banking institutions	23	69,465,145	30,135,355
Borrowings	24	38,064,230	14,433,185
Lease liability	32 (ii)	14,220,011	13,039,571
Current tax payable	26	571,872	-
Deferred tax liability	25	715,110	-
Other liabilities		26,166,206	12,013,855
TOTAL LIABILITIES		332,635,283	**272,983,083**
EQUITY	27		
Share capital	19 (c)	27,785,402	27,785,402
Regulatory credit risk reserve	31	5,119,221	1,861,461
Retained earnings	36	26,484,639	21,195,893
Proposed dividends		1,831,150	1,221,906
TOTAL EQUITY		**61,220,412**	**52,064,662**
TOTAL LIABILITIES AND EQUITY		**393,855,695**	**325,047,745**

The financial statements on pages 59 - 111 were approved for issue by the Board of Directors on 23rd March 2022:

Chairperson, Board of Directors

Director

Managing Director

Company Secretary

The notes set out on pages 64 - 111 form an integral part of the financial statements.

STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Share capital Shs 000	Regulatory reserve Shs 000	Retained earnings Shs 000	Proposed dividends Shs 000	Fair Value Through Other Comprehensive Income Shs 000	Total Shs 000
Year ended 31 December 2021							
At 1 January 2021		**27,785,402**	**1,861,461**	**21,195,893**	**1,221,906**	-	**52,064,662**
Comprehensive income:							
Profit for the year		-	-	**9,155,750**	-	-	**9,155,750**
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	**9,155,750**	-	-	**9,155,750**
Transactions with owners:		-		-	-	-	-
Transfer of non-paid Dividends				**1,221,906**	**(1,221,906)**	-	-
Transfer to regulatory reserve		-	**3,257,760**	**(3,257,760)**	-	-	-
Transfer of dividends payable to other liabilities					-	-	-
Dividends Proposed		-	-	**(1,831,150)**	**1,831,150**		-
						-	
At 31 December 2021		**27,785,402**	**5,119,221**	**26,484,639**	**1,831,150**		**61,220,412**
Year ended 31 December 2020						-	
At 1 January 2020		**27,785,402**	**1,654,570**	**15,568,765**	**1,221,906**		**46,230,643**
Comprehensive income:						-	
Profit for the year		-	-	**5,834,019**	-		**5,834,019**
Total comprehensive income		-	-	-	-	-	-
Transactions with owners:		-	-	**5,834,019**	-		**5,834,019**
Transfer to regulatory reserve						-	
Transfer of dividends payable to other liabilities		-		-	-		-
Dividends paid		-	**206,891**	**(206,891)**	-	-	-
Dividends proposed	36	-	-	-	-	-	-
					-		-
At 31 December 2020		**27,785,402**	**1,861,461**	**21,195,893**	**1,221,906**	-	**52,064,662**

The accounting policies and notes on pages 64 - 111 form an integral part of these financial statements.

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2021 Shs 000	2020 Shs 000
Cash flows from operating activities			
Interest receipts		62,540,553	51,331,535
Interest payments on deposits		(12,702,714)	(9,470,446)
Interest expense on borrowings		(2,478,281)	(1,788,289)
Interest expense on leases		(1,466,718)	(1,356,079)
Amortisation of operating grants		-	(209,725)
Net fee and commission receipts		26,455,200	20,982,392
Other income received		1,425,563	782,831
Recoveries from loans previously written off		1,026,624	1,001,270
Payments to employees and suppliers		(54,738,770)	(46,789,105)
Income tax paid		(3,229,730)	(2,988,657)
Cash flows from operating activities before changes in operating assets and liabilities		**16,831,727**	**11,495,727**
Changes in operating assets and liabilities:		(39,357,802)	(49,194,785)
— loans and advances		(1,029,150)	(332,033)
— other assets		-	-
— operating lease prepayments		(19,928,408)	49,522,193
— customer deposits		39,329,791	4,769,524
— deposits due to other banks		14,152,351	3,040,238
— other liabilities		(15,476,070)	(7,822,212)
— government securities maturing beyond 90 days			
Net cash generated from operating activities		**(5,477,561)**	**11,478,652**
Cash flows from investing activities			
Increase in placements with other banks		(7,300,494)	(5,279,511)
Purchase of property and equipment		(4,871,745)	(1,980,071)
Purchase of intangible assets		(1,045,183)	(242,939)
Proceeds from sale of property and equipment		81,417	93,243
Net cash utilized in investing activities		**(13,136,005)**	**(7,409,278)**
Cash flows from financing activities			
Receipts for borrowings		28,416,000	7,145,000
Repayments for borrowings		(5,412,565)	(5,717,356)
Lease payments		(2,101,328)	(1,986,595)
Receipts for operating grants		218,436	269,538
Dividends paid to shareholders		-	-
Net cash utilized from financing activities			
Net increase in cash and cash equivalents		**21,120,543**	**(289,413)**
Effect of exchange rate fluctuation on cash and cash equivalent held		2,506,977	3,779,961
Cash and cash equivalents at start of year		44,470,849	40,690,888
Cash and cash equivalents at end of year	**31**	**46,977,826**	**44,470,849**

The accounting policies and notes on pages 64 - 111 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

Block 6, Plot 121 & 115 Katwe
P O Box 6972
Kampala, Uganda

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

2. Basis of Accounting and Measurement
The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRSs). They were authorised for issue by the Bank's board of directors on 23rd March 2022. Details of the Bank's accounting policies are included in Note 4 and5.

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

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

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

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

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

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

Note 5: establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

Assumptions and estimation of uncertainties
Information about assumptions and estimation of uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes.

Note 5(d): impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

Note 4(iii): measurement of the fair value of financial instruments with significant unobservable inputs.

Note 4(k): recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

Note 32: recognition of leases

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

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

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

(b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

(c) Fees and commission income

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

(d) Financial assets and liabilities

(i) Classification and measurement of financial instruments

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

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

Amortised cost

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

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

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

Fair Value through Other Comprehensive Income (FVOCI)

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

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

As at 31 December 2021, the Bank did not have financial assets measured at FVOCI

Fair Value through Profit or Loss (FVTPL)

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

As at 31 December 2021, 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 Banks of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.
• Held to Collect: The objective in this business model is to manage the financial assets by holding them and collecting the underlying contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling the assets). In addition to this, the business considers the frequency, volume and timing of sales in prior periods, the reasons for such sales and the expectations about future sales activity.
• Held to Collect and Sell: The Bank may also hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the entity's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model.
• Held for Trading: A portfolio of financial assets that meets the definition of held for trading is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets
• Fair Value Option: The portfolio of financial assets meets the definition of FVTPL if:
(i). The financial instruments are acquired or incurred principally for the purpose of selling or repurchasing in the near term (this includes actual sale as well as synthetically selling off the risk through a derivative);
(ii). The instruments on initial recognition are part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit taking.

Financial liabilities

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

Reclassification

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

Modification and de-recognition

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

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

When the contractual terms of a financial asset are modified and the modification does not result in de-recognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:
• the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
• the remaining lifetime PD at the reporting date based on the modified terms

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

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

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

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

Write-off

The Bank writes off financial assets, in whole or part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:
• Ceasing enforcement activity
• Where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Interest income recognition

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

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

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

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

Assets that are credit-impaired on initial recognition

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

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

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

Measurement on initial recognition

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

Subsequent measurement

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

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

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

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

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

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

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

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

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

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

Measurement of expected credit losses

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

• financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
• financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount

and the present value of estimated future cash flows;
• of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
• Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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

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

Expected credit losses

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

In applying the IFRS 9 impairment requirements, an entity needs to follow one of the approaches below:
• The general approach
• The simplified approach

The General Approach

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

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

Stage 1: For credit exposures where there have not been significant increases in credit risk since initial recognition, an entity is required to provide for 12-month ECLs i.e. the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date (12-month ECL as per formula below)
ECL12m = PD12m x LGD12m x EAD12m

Stage 2: For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime (LT) ECLs, i.e., ECLs that result from all possible default events over the expected life of a financial instrument (ECL LT as per formula below).
ECL LT = LT∑T=1 PDt x LGDt x EADt

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

Definition of default

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

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

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

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

Probability of default (PD)

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

The bank has quantitatively embedded the impact of COVID-19 into its Expected Credit Loss computations in a variety of ways, including but not limited to:

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

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

Scenarios	Weights	
	Original scenario	further downside
Base	25%	15%
Upside	25%	15%
Downside	50%	70%

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

	Original scenario Shs 000	Further Downside scenario Shs 000
Stage 1	1,930,181	2,183,676
Stage 2	64,983	73,517
Stage 3	3,783,844	4,280,785
Total	**5,779,007**	**6,537,979**

The table below lists the macroeconomic factors considered in the macroeconomic model with a five-year forecast period. The assumptions represent the absolute values for Private final consumption per capita, LCU and Imports of goods and services per capita, which were found to be the statistically significant factors in predicting default.

At 31 December 2021	Private final consumption per capita, LCU	Imports of goods and services per capita
5-year Average	1,766,928	1.097
Peak*	1,854,415	1.309

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

Bank's internal ratings scale:

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

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 considered uncollectible	3

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

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

Expected credit losses (ECL) by segment as at 31 December 2020:

	Stage 1 – 12 Months ECL (Shs '000)	Stage 2 – Lifetime ECL (Shs '000)	Stage 3 – Lifetime ECL (Shs '000)	Total (Shs '000)
SME	83,771,011	2,273,973	6,038,593	92,083,577
Micro	102,926,659	5,044,397	6,947,554	114,918,610
Gross Carrying amount	**186,697,670**	**7,318,370**	**12,986,147**	**207,002,187**
Loss allowance	(1,616,201)	(71,841)	(2,144,156)	(3,832,198)
Net carrying amount	**185,081,469**	**7,246,529**	**10,841,991**	**203,169,989**

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 2021 has been used to determine the LGD. The data has been segmented by product to capture the unique characteristics of each cohort.

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

Exposure at Default (EAD)

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

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

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

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

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

(iii) Fair value measurement

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

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

• In the principal market for the asset or liability; or

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

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

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

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

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

• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

As at 31 December 2021, 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 re-pledge the collateral;

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

(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 Bank of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used. Impairment losses are recognised in profit or loss in expense categories consistent with the function.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or the

Carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

(i) Property and equipment

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

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

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

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

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

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

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

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

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

(j) Intangible assets

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

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

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

• it is technically feasible to complete the software product so that it will be available for use;

• management intends to complete the software product and use or sell it;

• there is ability to use or sell the software product;

• it can be demonstrated how the software product will generate probable future economic benefits;

• adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

• the expenditure attributable to the software product during its development can be reliably measured.

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

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

(k) Income tax

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

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

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

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

(l) Cash and cash equivalents

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

(m) Employee benefits

(i) Retirement benefit obligations

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

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

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

(ii) Other entitlements

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

(n) Customer deposits

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

(o) Borrowings

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

(p) Share capital

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

(q) Dividends

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

(r) Accounting for leases

(i) With the Bank as Lessee

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

(ii) With the Bank as lessor

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

(s) Acceptances and letters of credit

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

(t) Grants

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

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

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

Critical accounting estimates and judgements in applying accounting policies

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

(a) Deferred income tax asset/liability

Deferred tax is recognised in respect of temporary differences between the carrying amounts of
assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
Deferred tax is not recognised for:

• Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss

• Temporary differences related to investments in subsidiaries to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

• Taxable temporary differences arising on the initial recognition of goodwill.

[IAS 12.56] Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible
Temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

[IAS 12.37] Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.
Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and Reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its Assets and liabilities.
The Bank recognizes deferred tax assets/ liabilities every when there exist qualifying deductible/taxable temporary differences respectively. Recognition of deferred tax assets is to the extent that the entity expects to recover the carrying amount in form of economic benefits flowing to the entity in future periods while that of deferred tax liabilities is hinged on the probability that economic benefits will flow from the entity in form of tax payments still in future periods.

In 2021, the Bank recognised deferred tax Asset of Shs336Million in respect of increase in deductible temporary differences. The deferred tax asset has been maintained in the balance sheet with an assumption that the bank will remain profitable against which the deductible temporary difference will be utilized.

(b) Measurement of expected credit loss allowance

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

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

• Determining the criteria for significant increase in credit risk

• Choosing appropriate models and assumptions for the measurement of ECL

• Establishing the number and relative weightings for forward-looking scenarios for each type of product / market and associated ECL

• Establishing Banks of similar assets for the purposes of measuring ECL.

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

A number of new standards and amendments to standards were effective for annual periods

Beginning after 1 January 2021 and earlier application is permitted. All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

(i) New standards adopted by the bank

New amendments or interpretation effective for annual periods beginning on or after 1 January 2021 are summarized below:

New amendments or interpretation	Effective date
• Covid 19 related rent concessions IFRS 16 Amendment	1 April 2021
• Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7 and IFRS 16)	1 January 2021

IFRS 16 amendment COVID-19 Related Rent Concessions

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient will only apply if:

— the revised consideration is substantially the same or less than the original consideration;

— the reduction in lease payments relates to payments due on or before 30 June 2021; (a subsequent amendment released in March 2021 has extended this date to 30 June 2022) and

— no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose:

— that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and

— the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

The amendment to IFRS 16 did not have a material effect on the financial statements as the Bank did not get any rent concessions.

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments – Interest Rate Benchmark Reform-Phase 2

Under the detailed rules of IFRS 9 Financial Instruments, modifying a financial contract can require recognition of a significant gain or loss in the income statement. However, the amendments introduce a practical expedient if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate. A similar practical expedient will apply under IFRS 16 Leases for lessees when accounting for lease modifications required by IBOR reform.

The amendments also allow a series of exemptions from the regular, strict rules around hedge accounting.

The following disclosures will also be necessary:

— the nature and extent of risks to which the company is exposed arising from financial instruments subject to IBOR reform and how it manages those risks; and

— the company's progress in completing its transition to alternative benchmark rates and how it is managing that transition.

The amendments apply retrospectively with earlier application permitted. Hedging relationships previously discontinued solely because of changes resulting from the reform will be reinstated if certain conditions are met.

The adoption of these amendments did not have an impact on the financial statements of the Bank as the bank did not have any financial instruments whose effective interest rate was pegged on the IBOR.

(ii) Standards issued but not yet effective

At the date of authorization of the financial statements of Finance Trust Bank Limited Uganda for the year ended 31 December 2021. All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity). The following Standards and Interpretations were in issue but not yet effective:

New amendments or interpretation	Effective for annual periods beginning or after
• Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
• IFRS 1, IFRS 9, IFRS 16, and IAS 41 amendments Annual Improvements to IFRS Standards 2018–2021	1 January 2022
• Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
• Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
• Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
• IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
• IAS 8 amendment-Definition of Accounting Estimates	1 January 2023
• IAS 1 and IFRS Practice Statement 2 amendment-Disclosure Initiative: Accounting Policies	1 January 2023
• IAS 12 amendment-Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28	Available for optional adoption/ effective date deferred indefinitely

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

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

— the incremental costs – e.g. direct labour and materials; and

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

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

The amendments are not expected to have a material impact on the Bank.

Annual Improvements to IFRS Standards 2018-2021

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted.

The amendments are not expected to have a material impact on the Bank.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. Proceeds from selling items before the related item of property, plant and equipment is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 Inventories should be applied in identifying and measuring these production costs.
Companies will therefore need to distinguish between:

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

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

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

Reference to the Conceptual Framework (Amendments to IFRS 3)
The amendment has:

- updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- added to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and

- added to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

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

The Bank is not under a Group Structure and as such these amendments are not expected to have a material impact on the Bank.

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

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

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.
The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity's financial statements.
The entity is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements.

The standard is effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted only if the entity applied IFRS 9.
The amendments are not expected to have a material impact on the Bank.

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

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

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

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

The amendments are not expected to have a material impact on the Bank.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
The amendments require the full gain to be recognized when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognized. The definition of a business is key to determining the extent of the gain to be recognized.

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

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

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

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

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

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

Definition of accounting estimates (Amendments to IAS 8)
Distinguishing between accounting policies and accounting estimates is important because changes in accounting policies are generally applied retrospectively, while changes in accounting estimates are applied prospectively.

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

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

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

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

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

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

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

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

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

The Bank is assessing the impact of the amendments to IAS 1and IFRS Practice Statement 2 on the financial statements.

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

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

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

6. Financial risk management

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

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

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

	2021 Shs 000	2020 Shs 000
Financial assets		
Measured at amortised cost		
Cash and balances with Bank of Uganda	43,060,406	41,576,562
Deposits and placements with other Banks	49,670,352	41,290,404
Government securities	25,912,416	10,130,072
Net loans and advances to customers	242,527,791	203,169,989
Other assets	6,394,501	5,365,350
	367,565,466	**301,532,377**

	2021 Shs 000	2020 Shs 000
Financial liabilities		
Measured at amortised cost:		
Customer deposits	183,432,709	203,361,117
Deposits and balances due to other banking institutions	69,465,145	30,135,355
Borrowings	38,064,230	14,433,185
Other financial liabilities	26,166,206	12,013,855
Lease liabilities	14,220,011	13,039,571
	331,348,301	**272,983,083**

(a) Credit risk

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

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

(i) Credit risk measurement

Loans and advances (including commitments and guarantees)

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

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness. Review of the model was done during the year 2021 to address the effects of Covid-19.

Probability of default

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

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

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

(ii) Risk limit control and mitigation policies

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

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

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

(iii) Collateral

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

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

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

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

(iv) Credit related commitments

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

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

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

Credit risk exposures relating to on-balance sheet assets:

	2021 Shs 000	2020 Shs 000
Bank Balances with Bank of Uganda (Note 15)	22,864,538	21,917,902
Placements & deposits with other banks (Note 16)	49,670,352	41,290,404
Loans and advances to customers (Note 19 (a))	242,527,791	203,169,989
Government securities (Note 17(a))	25,912,416	10,130,072
Other assets (Note 18)	6,394,501	5,365,350
	347,369,598	**281,873,717**

Credit risk exposures relating to off-balance sheet items:

	2021 Shs 000	2020 Shs 000
Guarantee and performance bonds	4,922,121	2,358,842
Commitments to lend	979,619	752,112
Total exposure	**353,271,338**	**284,984,671**

The above table represents a worst-case scenario of credit risk exposure to the Bank at 31 December 2021, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 68.6% of the total maximum exposure is derived from loans and advances to customers and 7.33% represents investments in debt securities.

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

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

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

Loans and advances

	2021 Shs 000	2020 Shs 000
Neither past due nor impaired	217,831,947	186,697,670
Past due but not impaired	6,313,815	7,318,369
Impaired	24,043,746	12,986,148
Gross	**248,189,508**	**207,002,187**
Less: allowance for impairment (Note 20 (a))	(5,661,717)	(3,832,198)
Net amount	**242,527,791**	**203,169,989**

Impairment of Loans and advances

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

	2021 Shs 000	2020 Shs 000
Stage 1	217,831,947	186,697,670
Stage 2	6,313,815	7,318,369
Stage 3	24,043,746	12,986,148
	248,189,508	**207,002,187**

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

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

	2020 Ush 000				
	Stage 1	Stage 2	Stage 3	POCI	Total
Normal	186,697,670	1,477,675	174,737	-	188,350,082
Watch	-	5,840,694	231,403	-	6,072,097
Substandard	-	-	9,424,780	-	9,424,780
Doubtful	-	-	2,025,703	-	2,025,703
Loss	-	-	1,129,525	-	1,129,525
	186,697,670	**7,318,369**	**12,986,148**	-	**207,002,187**
Loss allowance	(1,616,201)	(71,841)	(2,144,156)	-	(3,832,198)
Carrying amount	**185,081,469**	**7,246,528**	**10,841,992**	-	**203,169,989**

Cash and Bank of Uganda Balances	2021 Ush 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	43,124,230	-	-	43,124,230
Loss Allowance	(63,824)	-	-	(63,824)
Carrying amount	**43,060,406**	-	-	**43,060,406**

	2020 Ush 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	41,634,434	-	-	41,634,434
Loss Allowance	(57,872)	-	-	(57,872)
Carrying amount	**41,576,562**	-	-	**41,576,562**

Balances with Other Bank	2021 Ush 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	49,739,534	-	-	49,739,534
Loss Allowance	(69,182)	-	-	(69,182)
Carrying amount	**49,670,352**			**49,670,352**

	2020 Ush 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	41,346,726	-	-	41,346,726
Loss Allowance	(56,322)	-	-	(56,322)
Carrying amount	**41,290,404**			**41,290,404**

Investment Security at amortized cost	2021 Ush 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	25,951,636	-	-	25,951,636
Loss Allowance	(39,220)	-	-	(39,220)
Carrying amount	**25,912,416**	-	-	**25,912,416**

	2020 Ush 000			
	Stage 1	Stage 2	Stage 3	Total
Normal	10,145,362	-	-	10,145,362
Loss Allowance	(15,290)	-	-	(15,290)
Carrying amount	**10,130,072**	**-**	**-**	**10,130,072**

Cash and cash equivalents

The Bank held cash and cash equivalents of Shs118.64biillion at 31 December 2021 (2020: Shs 92.99billion). The cash and cash equivalents are held with central bank of Uganda and financial institution counterparties that are rated at least B based on Fitch ratings.

Concentration Risk

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

Sector	Gross Loans & advances			
	2021 Shs 000	(%)	2020 Shs 000	(%)
Agriculture	90,625,961	36%	70,989,221	34%
Manufacturing	8,129,661	3%	25,990,779	13%
Trade	33,899,585	14%	34,358,960	17%
Transport and Communication	6,615,744	3%	7,234,558	3%
Electricity and Water	1,394,520	1%	882,724	0%
Building, Mortgage, Construction and	57,457,850	23%	24,906,981	12%
Real Estate				
Business Services	11,810,720	5%	9,466,066	5%
Community, Social & Other Services	17,997,971	7%	16,987,770	8%
Personal Loans and Household Loans	20,257,496	8%	16,185,128	8%
	248,189,508	**100%**	**207,002,187**	**100%**

Collateral held and other credit enhancements

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

Type of credit exposure

	Note	31-Dec-21	31-Dec-20	Exposure (%) subject to Collateral Requirements Principal type of collateral held
		Ushs 000	Ushs 000	
Balances with Bank of Uganda	15	17.17%	7%	Treasury Bill(5bn)
Business Loans	19	100%	100%	Legal mortgage (Title)
Agriculture Loans	19	100%	100%	Legal Mortgage (Title)
Consumer loans	19	78%	63%	Legal Mortgage (Title)
Asset Financing	19	100%	100%	Chattels/Log Books
Loans Others	19	-	-	None
Other assets excluding prepayments	19	-	-	None

Loans and advances to customers

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

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

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

At 31 December 2021, the net carrying amount of credit-impaired loans and advances to customers amounted to Shs20.26billion (2020: Shs10.8billion) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Shs113.998billion (2020: Shs 59.1billion). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against it.

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

Covid-19 Pandemic Impact

In addition to the factors identified above under credit risk measurement, the Bank enhanced its assessment by considering the following factors as rebuttable presumptions of credit risk having significantly increased:

- Customers in adversely impacted economic sectors, education, transport and real estate.
- Increase in the customer's debt burden ratio established through a pre and post Covid-19 cash flow comparative trend analysis.
- Customers restructuring more than once in relation to the pandemic challenges.

Renegotiated loans

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

In response to the COVID-19 pandemic waves subsequent to the first wave, during the year 2021, the Bank continued to extend repayment holidays/Moratoriums as guided by Bank of Uganda. This was primarily done to enable customers to take a temporary break from making loan repayments where they were experiencing, or are reasonably expected to experience, payment difficulties on account of Covid-19.

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

At 31 December 2021 the restructured loans with repayment holidays granted in 2021 are analysed below:

	Restructured	Collateral
	Shs M	Shs M
Stage 1	12,948	34,946
Stage 2	3,597	17,748
Stage 3	1,386	2,983

Covid-19 repayment holiday loans amounted to Shs8, 766Million with a collateral holding of Shs20, 145Million.

Repossessed collateral

During 2021, the Bank did not re-possess any collateral held as security. The Bank's policy is to dispose of repossessed properties as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property not sold by year-end is classified in the balance sheet within "other assets".

(b) Liquidity risk

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

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

A separate team in the Treasury department regularly reviews sources of liquidity. The purpose is to ensure that the Bank maintains a wide diversification by provider, product and term.

In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis. Details of net liquid assets to deposits from customers and other banking institutions at the reporting date and during the reporting period were as follows:

	2021	2020
At 31 December	45.40%	40.01%
Average for the Period	45.16%	39.06%
Maximum for the Period	52.18%	45.10%
Minimum for the Period	**37.01%**	**28.00%**

Covid-19 Pandemic Impact

The bank's liquidity position remained stable throughout the period as revealed by the average position of 45.16%. Strong liquidity buffers that mostly stemmed from term borrowings to a tune of Shs28bn supported this position.

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

At 31 December 2021	Up to 1 month Shs 000	1-3 months Shs 000	3-12 months Shs 000	1-5 years Shs 000	Over 5 years Shs 000	Total Shs 000
Financial assets						
Cash and balances with Bank of Uganda	43,060,406	-	-	-	-	43,060,406
Placements & Deposits with other banks	25,120,729	12,266,216	12,283,407	-	-	49,670,352
Government securities	-	16,500,000	9,412,416	-	-	25,912,416
Loans and advances to customers	14,660,691	12,584,850	30,008,776	185,273,474	-	242,527,791
Other receivables	-	-	-	6,394,501	-	6,394,501
Total financial assets	**82,841,826**	**41,351,066**	**51,704,599**	**191,667,975**	-	**367,565,466**
Financial liabilities						
Customer deposits	10,897,416	12,454,190	46,703,211	113,377,892	-	183,432,709
Deposits and balances due to banking institutions	10,035,850	2,359,388	57,069,907	-	-	69,465,145
Borrowed funds	875,322	471,335	4,021,871	32,695,702	-	38,064,230
Lease liability	1,441,322	421,341	1,657,242	11,995,571	4,320,200	19,835,786
other liabilities	-	10,873,803	-	15,292,403	-	26,166,206
Total financial liabilities	**23,249,910**	**26,580,057**	**109,452,231**	**173,361,568**	**4,320,200**	**336,964,076**
Off Balance Sheet Items						
Guarantee and performance bonds	452,686	1,397,570	528,698	1,312,207	1,230,960	**4,922,121**
Commitments to lend	979,619	-	-	-	-	**979,619**
Total off balance sheet item	**1,432,305**	**1,397,570**	**528,698**	**1,312,207**	**1,230,960**	**5,901,740**
Net liquidity gap At 31 December 2021	**58,159,611**	**13,373,439**	**(58,276,330)**	**16,994,200**	**5,551,160**	**24,669,760**

At 31 December 2020	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	41,576,562	-	-	-	-	41,576,562
Placements & Deposits with other banks	16,894,287	4,663,077	19,733,040	-	-	41,290,404
Government securities	-	-	10,130,072	-	-	10,130,072
Loans and advances to customers	11,715,611	10,322,655	46,958,228	134,173,495	-	203,169,989
Other receivables	-	-	-	5,365,350	-	5,365,350
Total financial assets	**70,186,460**	**14,985,732**	**76,821,340**	**139,538,845**	-	**301,532,377**
Financial liabilities						
Customer deposits	11,496,235	13,138,555	49,269,582	129,456,745	-	203,361,117
Deposits and balances due to banking institutions	3,739,417	4,386,079	22,009,859	-	-	14,433,185
Borrowed funds	697,871	278,176	2,996,535	10,460,603	-	14,433,185
Lease liability	630,486	251,317	2,707,201	9,450,567	-	13,039,571
other liabilities	-	-	-	12,013,855	-	12,013,855
Total financial liabilities	**16,564,009**	**18,054,127**	**76,983,177**	**161,381,770**	-	**272,983,083**
Off Balance Sheet Items						
Guarantee and performance bonds	764,465	20,944	466,107	225,151	882,175	**2,358,842**
Commitments to lend	752,112	-	-	-	-	**752,112**
Total off balance sheet item	**1,516,577**	**20,944**	**466,107**	**225,151**	**882,175**	**3,110,954**
Net liquidity gap At 31 December 2020	**52,105,874**	**(3,089,339)**	**(627,944)**	**(22,068,076)**	**(882,175)**	**25,438,340**

(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 2021 and 2020. During the reporting period, the Bank only traded in USD and the financial instruments held as at 31 December 2021 and 2020 are included in the table below.

USD balances	2021 Shs 000	2020 Shs 000
At 31 December 2021 **Assets**		
Cash and BOU balances	4,496,186	1,312,366
Deposits and balances due from other banking institutions	877,634	564,413
Loans and advances	-	-
Other financial assets	-	-
Total assets	**5,373,820**	**1,876,779**
Liabilities		
Customer deposits	5,248,399	718,055
Deposits and balances due to banking institutions	-	-
Other financial liabilities	-	-
Total liabilities	**5,248,399**	**718,055**
Net on-balance sheet position	**125,421**	**1,158,724**
Net off-balance sheet position	**-**	**-**
Overall open position As at 31 December 2021	**125,421**	**1,158,724**

At 31 December 2020, 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 Shs1,158 million (2019: Shs1,529 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 principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. Board ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities. These day-to-day activities include; monitoring changes in the Bank's interest rate exposures, which include the impact of the Bank's outstanding or forecast debt obligations and changes to exposures arising from interbank offered rates reform. Board ALCO sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly. Treasury is responsible for implementing these strategies by putting in place the individual hedge arrangements. Many of those hedge arrangements are designated in hedging relationships for accounting purposes. The Bank 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 2020, 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 1.158 billion (2019: Shs1.531 billion) higher/lower.

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

At 31 December 2021	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Bank of Uganda	-	-	-	-		**43,060,406**
Placements & Deposits with other banks	21,203,309		12,283,406	-		**49,670,352**
Government securities	-		9,412,416	-		**25,912,416**
Loans and advances to customers	14,660,691		30,008,776	185,273,474		**242,527,791**
Other assets	-	-	-	-		**6,394,501**
Total assets	**35,864,000**	**41,351,066**	**51,704,599**	**185,273,474**	**53,372,327**	**367,565,465**
Liabilities						
Customer deposits	9,718,648	11,107,026	41,651,348	101,113,865	19,841,822	**183,432,709**
Deposits and balances due to other banking institutions	10,035,850	2,359,388	57,069,907	-	-	**69,465,145**
Borrowings	875,322	471,335	4,021,871	32,695,702	-	**38,064,230**
Finance Leases	327,002	176,081	1,502,488	12,214,440	-	**14,220,011**
Other Liabilities	-	10,034,192	-	-	16,132,014	**26,166,206**
Total Equity and Liabilities	**20,956,822**	**24,148,022**	**104,245,614**	**146,024,007**	**35,973,836**	**331,348,301**
Interest re-pricing gap As at 31 December 2020	**14,907,178**	**17,203,044**	**(52,541,016)**	**39,249,467**		

At 31 December 2020	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	-	-	-	-	41,576,562	**41,576,562**
Placements & Deposits with other banks	14,000,000	4,663,077	19,733,040	-	2,894,287	**41,290,404**
Government securities	-	-	10,130,072	-	-	**10,130,072**
Loans and advances to customers	11,715,611	10,322,655	46,958,228	134,173,495	-	**203,169,989**
Other assets	-	-	-	-	5,365,350	**5,365,350**
Current income tax recoverable	-	-	-	-	13,760	**13,760**
Property and equipment	-	-	-	-	8,326,043	**8,326,043**
Operating lease prepayments	-	-	-	-	12,727,156	**12,727,156**
Deferred income tax asset	-	-	-	-	134,862	**134,862**
Intangible assets	-	-	-	-	2,313,547	**2,313,547**
Total assets	**25,715,611**	**14,985,732**	**76,821,340**	**134,173,495**	**73,351,567**	**325,047,745**
Liabilities						
Customer deposits	9,956,687	11,379,071	42,671,519	112,120,209	27,233,631	**203,361,117**
Deposits and balances due to other banking institutions	1,287,509	8,183,682	20,664,164	-	-	**30,135,355**
Borrowings	697,871	278,176	2,996,535	10,460,603	-	**14,433,185**
Finance Leases	630,487	251,317	2,707,200	9,450,567	-	**13,039,571**
Current tax payable		-	-	-	-	**-**
Deferred tax Liability		-	-	-	-	**-**
Other Liabilities		-	-	-	12,013,855	**12,013,855**
Equity				-	52,064,662	**52,064,662**
Total Equity and Liabilities	**12,572,554**	**20,092,246**	**69,039,418**	**132,031,379**	**91,312,148**	**325,047,745**
Interest re-pricing gap As at 31 December 2019	**13,143,057**	**(5,106,514)**	**7,781,922**	**2,142,116**		

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	2021 Shs 000	2020 Shs 000
Assets as per balance sheet – at amortised cost		
Cash and Balances with Bank of Uganda	43,060,406	41,576,562
Balances & Placements with other banks	49,670,352	41,290,404
Loans and advances to customers	242,527,791	203,169,989
Investment securities:	25,912,416	10,130,072
Total	**361,170,965**	**296,167,027**

	2021 Shs 000	2020 Shs 000
Liabilities as per balance sheet – at amortised cost		
Customer deposits	183,432,709	**203,361,117**
Deposits from other banks	69,465,145	**30,135,355**
Other liabilities	26,166,206	**12,013,855**
Finance Leases	14,220,011	**13,039,571**
Total	**293,284,071**	**258,549,898**

(f) Capital management

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

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

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

Under the Financial Institutions Act, 2004, each Bank is required to: (a) hold the minimum level of regulatory capital of Shs25 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 12.5%; and (c) maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

The 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, 50% of Net after-tax profits for current year-to-date and general reserves (permanent, unencumbered and able to absorb losses) less deductions of goodwill and other intangible assets, current year's losses, investments in unconsolidated financial subsidiaries, deficiencies in provisions for losses, prohibited loans to insiders and other deductions determined by the Financial Institutions Act 2004(amended 2018) and implementing the Financial Institutions (Capital Adequacy Requirements) Regulations, 2018.

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

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December 2021 determined in accordance with the Financial Institutions Act:

	2021 Shs 000	2020 Shs 000
Core capital (Tier 1)		
Shareholder's equity	27,785,402	**27,785,402**
Retained earnings	26,484,639	**21,195,893**
Intangible assets	(2,991,114)	**(2,313,547)**
Deferred income tax asset	**-**	**(134,862)**
Unrealized foreign exchange gains	**-**	-
Total core capital	**51,278,927**	**46,532,886**
Supplementary capital (Tier 2)		
General provisions (FIA)	**2,382,133**	2,029,630
Tier 2 capital	**2,382,133**	**2,029,630**
Total capital (Tier 1 and Tier 2)	**53,661,060**	**48,562,516**

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 2021:

Balance sheet assets (net of provisions)	Balance sheet amount		Risk weight %	Risk weighted amount	
	2021 Shs'000	2020 Shs'000		2021 Shs'000	2020 Shs'000
Cash at Hand	20,195,868	19,631,334	0%	-	-
Balances with Bank of Uganda	22,864,538	21,945,228	0%	-	-
Balances with other Financial institutions in Uganda	3,848,238	2,890,344	20%	769,648	578,069
Deposit Auction	-	-	0%	-	-
Placement with DTB	7,056,192	4,994,181	20%	1,411,238	998,836
Placement with HFB	4,001,479	2,996,484	20%	800,296	599,297
Placement with FINCA	6,281,781	6,498,264	20%	1,256,356	1,299,653
Placement with Pride Micro Finance	16,692,528	20,697,542	20%	3,338,506	4,139,508
Placement with Post Bank	11,790,134	3,213,589	20%	2,358,027	642,718
Government securities	25,912,416	10,130,072	0%	-	-
Loans and advances to customers	237,437,948	202,401,735	100%	237,437,948	202,401,735
Other assets	6,394,501	5,365,350	100%	6,394,501	5,365,350
Current income tax recoverable	-	13,760	100%	-	13,760
Property and equipment	9,071,221	8,326,043	100%	9,071,221	8,326,043
Right of Use	14,227,894	12,727,156	100%	14,227,894	12,727,156
Operating lease prepayments	-	-	100%	-	-
Intangible	-	-	0%	-	-
Deferred income tax asset	-	-	0%	-	-
On balance sheet assets	**385,774,738**	**321,831,082**		**277,065,635**	**237,092,125**
Market risk adjustment:					
Interest Rate Risk	-	-	100%	-	-
General Market Risk	575000	1,446,503	100%	575000	1,446,503
Foreign Exchange Risk	125,421	1,159,752	-	125,421	1,159,752
Counter party risk adjustment	-	-	-	-	-
Off-balance sheet positions					
Guarantees	4,922,121	2,358,842	100%	4,922,121	2,358,842
Commitments to lend	979,619	752,112	50%	489,810	376,056
Off balance sheet items	**5,901,740**	**3,110,954**		**5,411,931**	**2,734,898**
Total risk-weighted assets	**392,376,899**	**327,549,334**		**283,177,987**	**242,434,321**

Loans and advances to customers

	2021 Shs '000	2020 Shs '000
Gross loans and overdraft (Note 19(a)	248,189,508	207,002,187
Less specific provisions (FIA)	(8,571,030)	(3,793,514)
Less interest in suspense	(1,731,558)	(399,328)
Cash collateral	(448,972)	(407,610)
Net Loans and advances	**237,437,948**	**202,401,735**

Capital ratios per Financial Institutions Act (FIA)

Core capital	51,278,927	46,532,886
Total capital	53,661,060	48,562,516
FIA minimum ratio capital requirement		
Core capital (12.5%) (2020: 10%)	18.11%	19.19%
Total capital (14.5%) (2020:12%)	18.95%	20.03%
Leverage ratio 6%	12.83%	14.18

7 Interest income

	2021 Shs 000	2020 Shs 000
Loans and advances	56,579,350	48,234,411
Government securities	2,690,238	1,270,292
Short term placements	4,836,753	3,871,374
	64,106,341	**53,376,077**

8 Interest expense

	2021 Shs 000	2020 Shs 000
Customer deposits	12,574,760	10,155,210
Borrowed funds	1,466,718	1,356,079
	3,534,530	1,786,476
	17,576,008	**13,297,765**

9 Fee and commission income

	2021 Shs 000	2020 Shs 000
Transactional fees and commission income	7,352,307	6,230,826
Credit related fees and commission income	18,578,788	13,685,597
	25,931,095	**19,916,423**

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

10 Net foreign exchange income

	2021 Shs 000	2020 Shs 000
Realized foreign exchange gains	635,279	407,346
Unrealized foreign exchange gains	-	-
	635,279	**407,346**

11 Other operating income

	2021 Shs 000	2020 Shs 000
Recovery of written off loans	1,026,623	1,001,270
Grant income	120,359	146,254
Other income	790,285	375,484
	1,937,267	**1,523,008**

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

12 Operating expenses

		2021 Shs 000	2020 Shs 000
a)	Depreciation of property and equipment (Note 20)	3,661,428	2,230,555
	Depreciation on Right of Use (Note 32(a(i))	2,579,633	2,349,943
	Depreciation on Right of Use (Note 32(a(i))	597,732	527,487
		6,838,793	5,107,985
b)	Auditor's remuneration	432,294	253,396
	Legal fees	446,049	433,291
	Other professional fees	93,827	193,455
	Rent and rates	3,000	-
	Advertising and promotion	2,321,170	1,522,426
	Communication and technology	2,991,688	2,804,206
	Maintenance of Office Building	605,453	164,444
	Maintenance of Office Equipment	483,628	289,818
	Printing & Stationary	1,473,484	1,359,276
	Security Expenses - Office Guards	1,135,145	1,131,959
	Security Expenses - Cash in Transit	558,895	531,072
	Insurance Expenses	1,444,026	1,188,665
	Bank Charges	684,756	529,719
	Others	5,716,016	4,684,255
		18,389,431	**15,085,982**

Other Operating Expenses mainly relates to maintenance costs for property, plant and equipment and agency banking costs.

13 Personnel expenses

	2021 Shs 000	2020 Shs 000
Salaries and wages	25,053,791	23,056,191
NSSF contributions	2,588,776	2,326,432
Defined contribution scheme contributions	792,620	777,626
Other staff costs	3,147,159	2,548,851
	31,582,346	**28,709,100**

14 Income tax expense

	2021 Shs 000	2020 Shs 000
Current income tax charge	3,074,865	2,863,421
Withholding tax on government securities	538,048	254,058
Defferred income tax charge- current year (Note 26)	849,972	(535,939)
	4,462,885	**2,581,540**

	Effective Tax Rate	2021 Shs 000	Effective Tax Rate	2020 Shs 000
PROFIT BEFORE INCOME TAX		**13,618,635**		**8,415,559**
Tax calculated at the statutory income tax rate	30%	4,085,591	30%	2,524,668
Tax effect of:				
Tax effect of non-deductible items	-2%	-215,282	-9%	-224,879
Prior year deferred income tax under provision	4%	592,576	11%	(40,977)
Income tax Charge	**33%**	**4,462,885**	**30%**	**2,581,540**
Current income tax recoverable/(payable) was as follows:				
At 1 January		13,760		26,836
Adjustments for prior period items		(202,449)		115,746
Current income tax charge		(3,612,913)		(3,117,479)
Income tax paid		3,229,730		2,988,657
At 31 December		**(571,872)**		**13,760**

15 Cash and balances with Bank of Uganda

	2021 Shs 000	2020 Shs 000
Cash on hand	20,195,868	19,658,660
Balances with Bank of Uganda	22,928,362	21,975,774
IFRS 9 Impairment on Balances with Bank of Uganda	(63,824)	(57,872)
	43,060,406	**41,576,562**

16 Placements and deposits with other banks

	2021 Shs 000	2020 Shs 000
Balances with Banks in Uganda	3,917,420	2,894,287
Placements with other banking institutions - in Uganda	45,822,114	38,452,439
IFRS 9 Impairment	(69,182)	(56,322)
	49,670,352	**41,290,404**

17 Government securities

Treasury bills	2021 Shs 000	2020 Shs 000
Maturing within 90 days	-	-
Maturing later than 90 days	26,500,000	11,000,000
	-	-
	26,500,000	**11,000,000**
Unearned interest		(854,638)
IFRS 9 impairment	(548,364)	(15,290)
	(39,220)	
	25,912,416	**10,130,072**
Treasury bonds		
Maturing within 90 days	-	-
Maturing after 90 days	-	-
IFRS 9 Impairment provision	-	-
	-	-
Total government securities	**25,912,416**	**10,130,072**

18 Other assets

	2021 Shs 000	2020 Shs 000
Accounts receivable and prepayments	5,461,513	4,984,114
Other receivables	23,228	52,686
Consumables	909,760	328,550
	6,394,501	**5,365,350**

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

19 Loans and advances to customers

a) Analysis of loan advances to customers by category

	2021 Shs 000	2020 Shs 000
Term loans	**247,182,581**	**205,420,739**
Overdrafts	**1,333,311**	**1,736,065**
Staff loan fair valuation adjustment	**(326,384)**	**(154,617)**
Total Gross Loans and advances	**248,189,508**	**207,002,187**
Less: Provision for impairment of loans and advances		
Stage 1	**(1,809,938)**	**(1,616,201)**
Stage 2	**(64,983)**	**(71,841)**
Stage 3	**(3,786,796)**	**(2,144,156)**
Total loan provisions	**(5,661,717)**	**(3,832,198)**
Net loans and advances	**242,527,791**	**203,169,989**

The weighted average effective interest rate on loans and advances to customers was 27.7% (2020: 29.2%).

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

				2021 Shs 000
Year ended 31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January	1,616,201	71,841	2,144,156	3,832,198
Provision for loan impairment	-	-	-	-
IFRS 9 Impairment Adjustment	847,447	171,655	3,536,652	4,555,754
Loans written off during the year as uncollectible	(653,710)	(178,513)	(1,894,012)	(2,726,235)
At 31 December	**1,809,938**	**64,983**	**3,786,796**	**5,661,717**

				2020 Shs 000
Year ended 31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January	912,890	103,478	708,952	1,725,320
Provision for loan impairment	76,429	-	-	76,429
IFRS 9 Impairment Adjustment	626,882	8,980	3,917,541	4,553,403
Loans written off during the year as uncollectible	-	(40,617)	(2,482,337)	(2,522,954)
At 31 December	**1,616,201**	**71,841**	**2,144,156**	**3,832,198**

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

Year ended 31 December 2021		2021 Shs 000
At 1 January		
Impairment charge on cash & balances with Bank of Uganda (note 15)		63,824
Impairment charge on Bank balances (note 16)		69,182
Impairment charge on investment securities (note 17a)		39,220
At 31 December 2021		**172,226**
Year ended 31 December 2020		**2020**
At 1 January 2020		Shs 000
IFRS 9 Impairment adjustment on balances with bank of Uganda (note 15)		57,872
IFRS 9 Impairment adjustment bank balances (note 16)		56,323
IFRS 9 Impairment adjustment on investment securities (note 17)		15,290
At 31 December 2020		**129,485**

(b) Impairment losses charged to profit or loss

	2021 Shs 000	2020 Shs 000
Impairment charge on cash & balances with Bank of Uganda	5,952	23,522
Impairment charge on Bank balances	12,859	22,228
Impairment charge on investment securities	23,930	7,310
Impairment charge on other commitments	6,274	-
Impairment charge on Loans and advances	4,555,754	4,553,403
	4,604,769	**4,606,463**

(c) Regulatory Credit Risk Reserve

Analysis as required under the Financial Institutions Act (FIA)

	2021 Shs 000	2020 Shs 000
Total provision as per IFRS		
Stage 1: Loans & Advances	1,809,938	1,539,773
Stage 1: Cash and balances with Bank of Uganda	63,824	57,872
Stage 1: Placements & Deposits with other banks	69,182	56,323
Stage 1: Government Securities	39,220	15,290
Stage 2: Loans & Advances	64,983	71,841
Stage 3: Loans & Advances	3,786,796	2,144,156
Total	**5,833,943**	**3,885,255**
Total provisions as required under the FIA	**8,571,030**	**3,793,514**
Specific provisions	2,382,133	2,029,630
General provisions	**10,953,163**	**5,823,144**
Regulatory credit risk reserve		
At 1 January	1,861,461	1,654,570
Transfer from retained earnings	3,257,760	206,891
At 31 December	**5,119,221**	**1,861,461**

20 Property and equipment

	Buildings Shs 000	Motor vehicles/ Cycles Shs 000	Compu ter Hardware Shs 000	Fixtures, fittings and equipment Shs 000	Work in progress Shs 000	Total Shs 000
Year Ended 31 December 2020						
Opening net book amount	**546,526**	**1,038,453**	**1,303,786**	**4,736,076**	**701,202**	**8,326,043**
Asset Reconciliation Adjustment				-	-	-
Additions	-	1,884,717	680,684	1,856,618	449,726	4,871,745
Transfers from WIP		-		251,307	(481,424)	(230,117)
Depreciation charge	(8,228)	(449,379)	(822,886)	(2,380,935)	-	(3,661,428)
Disposals	-	(208,093)	(75,931)	(383,843)	(136,802)	(804,669)
Depreciation on Disposals	-	168,905	73,552	327,190	-	569,647
Closing net book amount	538,298	2,434,603	1,159,205	4,406,413	532,702	9,071,221
Cost	603,734	4,688,399	6,479,396	14,764,151	532,702	27,068,382
Accumulated depreciation	(65,436)	(2,253,796)	(5,320,191)	(10,357,738)	-	(17,997,161)
Net book amount	**538,298**	**2,434,603**	**1,159,205**	**4,406,413**	**532,702**	**9,071,221**
Year Ended 31 December 2019	**554,753**	**848,757**	**1,877,254**	**5,470,050**	**550,947**	**9,301,761**
Opening net book amount						
Asset reconciliation adjustment						
Additions	-	166,998	68,054	672,678	1,072,341	1,980,071
Transfers from WIP	-	375,706	-	187,406	(775,690)	(212,578)
Write Offs	(8,227)	(314,170)	(634,124)	(1,274,034)	-	(2,230,555)
Depreciation charge	-	(425,867)	(1,209,317)	(3,578,116)	(146,396)	(5,359,696)
Disposals	-	387,029	1,201,919	3,258,092	-	4,847,040
Closing net book amount	**546,526**	**1,038,453**	**1,303,786**	**4,736,076**	**701,202**	**8,326,043**
Cost	603,734	3,011,775	5,874,643	13,040,068	701,202	23,231,422
Accumulated depreciation	(57,208)	(1,973,322)	(4,570,857)	(8,303,992)	-	(14,905,379)
Net book amount	**546,526**	**1,038,453**	**1,303,786**	**4,736,076**	**701,202**	**8,326,043**

21 Intangible assets

	2021 Shs 000	2020 Shs 000
Net book amount at 1 January	2,313,547	2,609,177
Additions: Computer Software	1,045,183	30,361
Write offs	-	(11,082)
Transfer from property and equipment	230,116	212,578
Amortization	(597,732)	(527,487)
Net book amount at 31 December	**2,991,114**	**2,313,547**
Cost	**8,507,324**	**7,232,025**
Accumulated depreciation	(5,516,210)	(4,918,478)
Net book amount	**2,991,114**	**2,313,547**

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

22 Customer deposits

	2021 Shs 000	2020 Shs 000
Current and demand deposits	19,841,822	27,233,631
Savings accounts	138,983,946	141,096,987
Fixed deposit accounts	24,606,941	35,030,499
	183,432,709	**203,361,117**

The weighted average effective interest rate on customer deposits was 2.35% (2020: 2.11%).

23 Deposits and balances due to other banking Institutions

	2021 Shs 000	2020 Shs 000
Terms deposits	**69,465,145**	**30,135,355**
	69,465,145	**30,135,355**

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 8.80% (2020: 11.79%).

24 Borrowings

	2021 Shs 000	2020 Shs 000
Uganda Development Bank	5,178,428	7,535,860
aBi Finance	7,687,849	558,170
Uganda Energy Credit Capitalisation Company	137,325	108,909
The Micro Finance Support Centre Limited	319,180	1,503,860
East Africa Development Bank	6,179,192	4,726,386
Symbiotics S.A.	18,562,256	-
	38,064,230	**14,433,185**

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

Details	Interest rate	Tenure (years)	Initial Amount Shs 000	Collateral
UDB Loan(1)	12%	5	6,000,000	Loan portfolio pledge & Cross Guarantee from UWT
UDB Loan(2)	6%	5	5,000,000	Loan portfolio pledge & Cross Guarantee from UWT
MSCL Loan	11%	3	3,000,000	Loan portfolio pledge
aBi Finance Loan	14%	5	2,200,000	Loan portfolio pledge
aBi 2020 Ltd Loan	12.3%	5	4,000,000	Loan portfolio pledge
UECCC(1) Loan	5%	2.7	300,000	Nil
EADB(1) Loan	12%	8	5,587,500	Loan portfolio pledge
EADB(2) Loan	12%	7	2,145,000	Loan portfolio pledge
EADB(3) Loan	12%	7	2,236,000	Loan portfolio pledge
Symbiotics S.A.	12%	4	18,030,000	Nil

25 Other liabilities

	2021 Shs 000	2020 Shs 000
Accounts payable	2,047,677	2,070,834
Accruals and other payables	2,408,640	1,497,649
Other taxes payable	1,125,908	957,332
Gratuity & pensions	899,289	729,511
Deferred income	4,598,576	3,308,717
Designated funds	15,895	115,482
Dividends payable	-	29,279
Capital grants	456,105	576,464
Suspended loan fees	2,412,587	612,240
NSSF payable	350,522	323,832
Agricultural Credit Facility Reimbursement	811,430	1,003,782
MMB from BOA*	10,034,192	-
Loan Insurance payable	267,031	165,286
Others	738,354	623,447
	12,013,855	**12,013,855**

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

The Money Market borrowing (MMB) relates to a 91-day short term borrowing from Bank of Africa at a rate of 7.8%. This was obtained on 16th December 2021.

Other liabilities mainly relate to CRB fees payable, mobile banking collections payable, unpresented drafts and title processing fees payable. The carrying amount of other liabilities approximates the fair values.

26 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 2021	1 January 2021 Shs 000	Charged (credited) to P/L Shs 000	31 December 2021 Shs 000
Deferred income tax liabilities			
Accelerated tax depreciation	1,289,577	(197,165)	1,092,412
Capital grants	(172,939)	36,107	(136,832)
Provisions for loan impairment	(506,412)	1,325,352	818,940
IFRS 16 Impact	-	-	-
Other provisions	(745,088)	(314,322)	(1,059,409)
Net deferred income tax (asset)/liability	**(134,862)**	**849,972**	**715,110**

Year ended 31 December 2020	1 January 2020 Shs 000	Charged (credited) to P/L Shs 000	31 December 2020 Shs 000
Deferred income tax liabilities			
Accelerated tax depreciation	1,437,077	(147,500)	1,289,577
Tax losses carried forward	-	-	-
Capital grants	(216,815)	43,876	(172,939)
Provisions for loan impairment	(174,144)	(332,268)	(506,412)
IFRS 16 Impact	(151,266)	151,266	-
Other provisions	(493,775)	(251,313)	(745,088)
Net deferred income tax (asset)/liability	**401,077**	**(535,939)**	**(134,862)**

The movement on the deferred tax asset amount is as follows:	2021 Shs 000	2020 Shs 000
At 1 January	(134,862)	**401,077**
Income statement credit	1,043,051	(535,939)
At 31 December	**(908,189)**	**(134,862)**

27 Share capital

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

Year ended 31 December 2020		
At start of year	**27,785,402**	**27,785,402**
	-	-
At end of year	**27,785,402**	**27,785,402**

The total authorised number of ordinary shares is Shs30 million (2020: 30 million) with a par value of Shs1, 000 per share. No share issues were done during the year 2021. Ordinary Shareholders are entitled to dividends when declared and one vote each during the annual general meeting.

28 Bank shareholding

The Bank shareholders are as follows:

Shareholder:	Country of incorporation		
		2020	2019
Uganda Women Trust (UWT)	Uganda	20.1%	20.1%
Oiko Credit Ecumenical Development Cooperative Society U,A	Netherlands	19.6%	19.6%
Progression Eastern African Micro Finance Equity Fund	Mauritius	18.3%	18.3%
RIF North 1 Investment	Mauritius	18.3%	18.3%
I&P Afrique Entrepreneurs	Mauritius	14.2%	14.2%
Founder Members	Uganda	9.5%	9.5%
		100.00%	**100.00%**

29 Analysis of cash and cash equivalents

	2021 Shs 000	2020 Shs 000
Cash and Balances with Banks of Uganda (note 15)	43,060,406	41,576,562
Less: cash reserve requirement	(14,674,617)	(16,268,889)
Government securities - maturing within 90 days (note 18)	-	-
Balances and Placements with other banks (note 16)	49,670,352	41,290,404
	78,056,141	**66,598,077**

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 is available for use in the bank,'s activities and may fall to 50% of the margin on a given day there are sanctions for non-compliance.

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

	2021 Shs 000	2020 Shs 000
Cash & Unrestricted balances with Bank of Uganda(Note 15)	43,060,406	41,576,562
Government securities - maturing within 90 days & AFS (note 17)	-	-
Balances with other banks (note 16)	3,917,420	2,894,287
Included in cash and cash equivalents	**46,977,826**	**44,470,849**
Restricted balances with Bank of Uganda	3,935,800	5,000,000
Movement in restricted balances:		
At start of year	5,000,000	2,000,000
Movement during the year	1,064,200	3,000,000
At end of year	3,935,800	5,000,000

30 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 Designated funds Shs'000	Change in capital grants Shs'000	Proposed dividends Shs'000	Lease liabilities Shs'000
31 December 2021					
Balance as at 1 January 2021	**14,433,185**	**115,481**	**576,464**	**1,221,906**	**13,039,571**
Changes in financing cash flows					
Receipts	**28,416,000**	**218,436**	-	-	-
Repayments of Debt	(5,412,565)	(318,022)	-	-	(3,568,046)
Total changes from financing cash flows	23,003,435	(99,586)	-	-	(3,568,046)
Other changes					
Interest expense	3,105,891	-	-	-	1,466,718
Change in proposed dividends	-	-	-	609,244	-
Other changes	(2,478,281)	-	(120,359)	-	3,281,768
Total liability related other changes	**627,610**	-	**(120,359)**	-	**4,748,486**
Balance as at 31 December 2021	**38,064,230**	**15,895**	**456,105**	**1,831,150**	**14,220,011**

	Borrowings Shs'000	Change in operating grants Shs'000	Change in capital grants Shs'000	Proposed dividends Shs'000	Lease liabilities Shs'000
31 December 2020					
Balance as at 1 January 2020	**13,007,355**	**55,668**	**722,718**	**1,221,906**	**10,716,224**
Changes in financing cash flows					
Receipts	**7,145,000**	**269,538**	-	-	-
Repayments of Debt	**(5,717,356)**	**(209,725)**	-	-	**(3,342,674)**
Total changes from financing cash flows	**1,427,644**	**59,813**	-		**(3,342,674)**
Other changes					
Interest expense	**(1,814)**	-	-	-	**1,356,079**
Other changes	-	-	-	-	**4,309,942**
Total liability related other changes	**(1,814)**	-	**(146,254)**	-	**5,666,021**
Balance as at 31 December 2020	**14,433,185**	**115,481**	**(576,464)**	-	**13,039,571**

31 Retained earnings

	2021 Shs 000	2020 Shs 000
At 1 January	**21,195,893**	15,568,765
Total comprehensive income for the year	9,155,750	5,834,019
Transfer from Regulatory Reserves	(3,257,760)	(206,891)
Transactions with Owners	(609,244)	-
At 31 December	**26,484,639**	**21,195,893**

During the year 2021, the shareholders unanimously agreed to transfer the unpaid dividends of 2019 Shs1, 221M to retained earnings in a bid to strengthen the Bank's capital position.

32 Leases

a) Leases as Lessee

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

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

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease

Liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.
The right of use is subsequently depreciated on a straight line basis, periodically reduced by impairment losses, if any and adjusted for certain re-measurements of the lease liability. When a right-of-use asset meets the definition of investment property, is presented in investment property. As at 31st December 2021, the bank had no assets within the definition of investment property.

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

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

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

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.
When a lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset or is recorded in profit and loss if the carrying amount of the right of use has been reduced to zero.

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

IAS 16.60 The Bank also leases IT equipment (The Call Centre and Money Counting Equipment) with contract terms of two to three years. These leases are short-term and/or leases of low-value items. The Bank elected not to recognize right-of-use assets and lease liabilities for these leases with the exception of the call Centre lease whose value was above the threshold of low value items as defined by the standard. As at end of the year 2021, the Bank had running leases; 10 Note counting Machines from Sybl for 5 years with annual lease rentals were agreed at Shs49,560,000 payable semi-annually with an effective date of the lease arrangement was 01 April 2020, 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 21IFRS 16.53–54 Information about leases for which the Bank is a lessee is presented below: changes in circumstances within its control.

i) Right-of- use assets

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

The balance of Right of Use as at 31 December 2021	2021 Shs 000	2020 Shs 000
As at 1 January	16,957,580	12,943,223
Additions	4,323,012	4,508,635
Write Offs	(1,216,819)	(494,278)
As at 31 December	20,063,773	**16,957,580**
Amortization		
As at 1 January	(4,230,424)	(2,104,540)
Charge for the year	(2,579,633)	(2,349,943)
Write Offs	974,178	224,059
As 31 December	(5,835,879)	**(4,230,424)**
Net book value As 31 December	**14,227,894**	**12,727,156**

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

ii) Lease Liability

	2021 Shs 000	2020 Shs 000
As at 1 January	13,039,571	10,716,224
Lease liability as at 1 January	4,323,012	5,538,115
Lease liability during the year	1,466,718	1,356,079
Lease charge for the year	(1,466,718)	(1,356,079)
Lease payments during the year	(2,101,328)	(1,986,595)
Terminations during the year	(1,041,244)	(1,228,173)
	14,220,011	**13,039,571**
Not later than 1 year	72,853	60,000
Later than 1 year but less than 5 years	14,147,158	12,979,571
	14,220,011	**13,039,571**

iii) Renewal options

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

33 Earnings per share

	2021 Shs 000	2020 Shs 000
Profit attributable to equity holders of the Bank	**9,155,750**	**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)	**0.330**	**0.210**

34 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

Loans & Advances to related parties	2020 Shs 000	2019 Shs 000
Loans and advances to key management:	2,177,988	1,955,736
Loans and advances to Directors:	-	-
Loans and advances to Shareholders:	-	-
Ms Wanendeya Ida, Mr Mwambu William Wanendeya on behalf of Carico Café Connoisseur Limited	230,939	417,111
Ms Lydia Ochieng Obbo	91,408	98,190
TOTAL	**2,500,335**	**2,471,037**

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 Shs291 million (2020: Shs203 million).

All loans to key management were administered at the approved interest rate on staff loans of 10% while those to the shareholders were extended at a rate of 23% for Ms Lydia Ochieng Obbo and 22% for Ms Wanendeya Ida and Mr Mwambu William on behalf of Carico Café Connoisseur Limited

Key management compensation	2021 Shs 000	2020 Shs 000
Salaries and short-term employment benefits	3,411,051	3,550,465
Terminal benefits	792,620	777,627
Other staff benefits	397,515	253,139
	4,601,186	**4,581,231**
Directors' remuneration		
Directors' fees	476,248	467,524

35 Bank Commitments

The following are the commitments outstanding at year end	2021 Shs 000	2020 Shs 000
Guarantee and performance bonds	4,922,121	2,358,842
	4,922,121	**2,358,842**

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:

Approved advances not utilized	2021 Shs 000	2020 Shs 000
	979,619	**752,112**

36 Dividends

	2021 Shs 000	2020 Shs 000
Dividends Proposed	1,831,150	-
	1,831,150	**-**

No interim dividend was paid during the year 2021 (2020: Nil). After the reporting date, the Board of Directors proposed Shs1, 831M dividends for the year 2021 (2020: Nil). The dividends have not been recognized as liabilities and there are no tax consequences.

37 Transition from Libor Benchmark

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

The Bank does not have any financial transactions linked to LIBOR and therefore no effect on the financial statements as at 31 December 2021.

38 Subsequent events

There is no event known to the bank that will diminish its ability to continue as a going concern.

NOTES

NOTES


FINANCE trust BANK
Trust Agent
Your Banking Neighbour
AGENT BANKING
Life Simplified
Withdraw, Deposit or pay bills from any trust agent near you
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.