FINANCE
trust
BANK

Putting Women First

Experience Convenient Banking.

ANNUAL REPORT 2018

Empowering Women

As a bank whose heritage is hinged on women, empowering women and especially rural women forms the core of what we do as a Bank. That is why 70% of our branch network is outside Kampala. Out of 36 branches, 26 branches are located in various districts. Our product offering is broad taking into consideration the varied needs of our women and youth who constitute our primary customers. In light of this, Women and girls have specific savings accounts that are opened at a very affordable amount. Our women customers who take loans get 1% interest reduction from the normal rates offered to other customers. We would like to be known as the bank that is with women from when they are girls.

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35 years serving our customers.

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

With its headquarters in Katwe, Finance Trust Bank operates a network of 36 branches, including one at Kalangala Islands. 70% of the bank's branches are located in rural areas.

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

Our journey through the years

1984
Not-for-profit

UWFT

Ugandan women entrepreneurs came together to empower low income women with financial literacy

1997
NGO

UWFT
Economic Empowerment of low income people through Financial Assistance.

Providing loans to women groups for financial empowerment

2005
MDI Status

U-TRUST
Promoting Financial Independence

Came under regulation by the central Bank as an MDI (Microfinance Deposit Taking Institution)

2008
Re-Branding MDI

FINANCE trust
Let's Grow

The MDI Underwent a re-branding phase to consolidate gains achieved and to openit up to a bigger market

2013
Commercial Bank

FINANCE trust BANK
Putting Women First

The needs of the customers grew which led to tranformation into a commercial bank, the first women-centric bank in Uganda

Our Vision

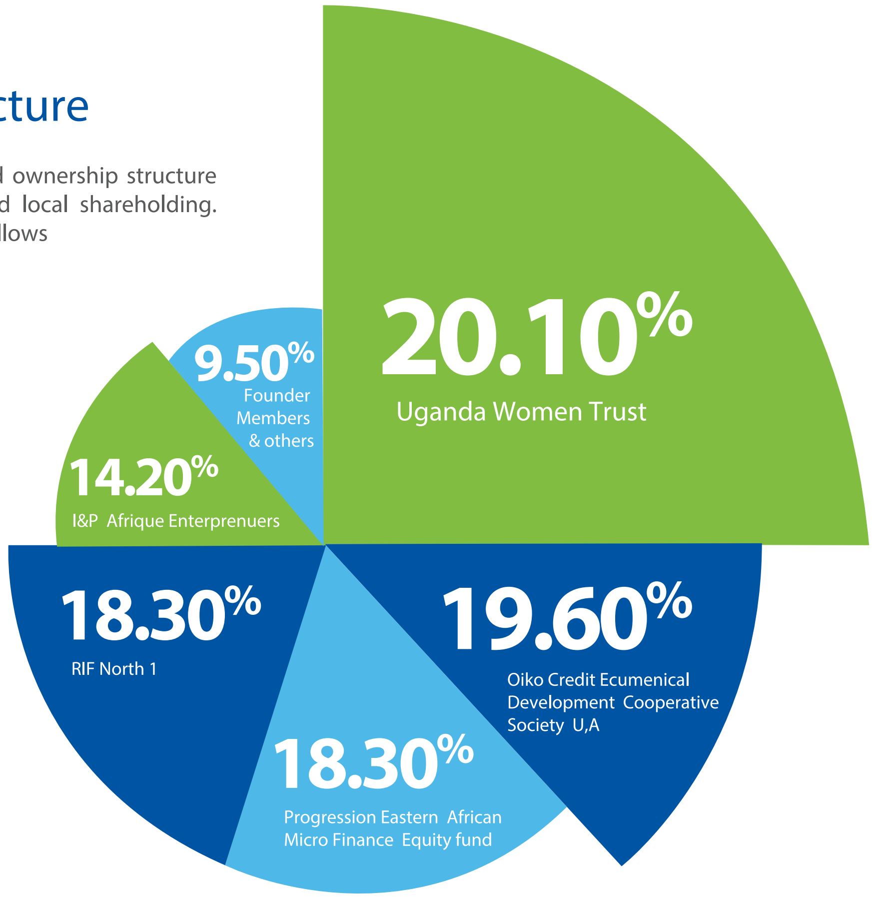
To be the bank of choice.

Our Mission

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

Ownership and Capital Structure

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



Corporate information

Registered office

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

Company Secretary

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

Auditor

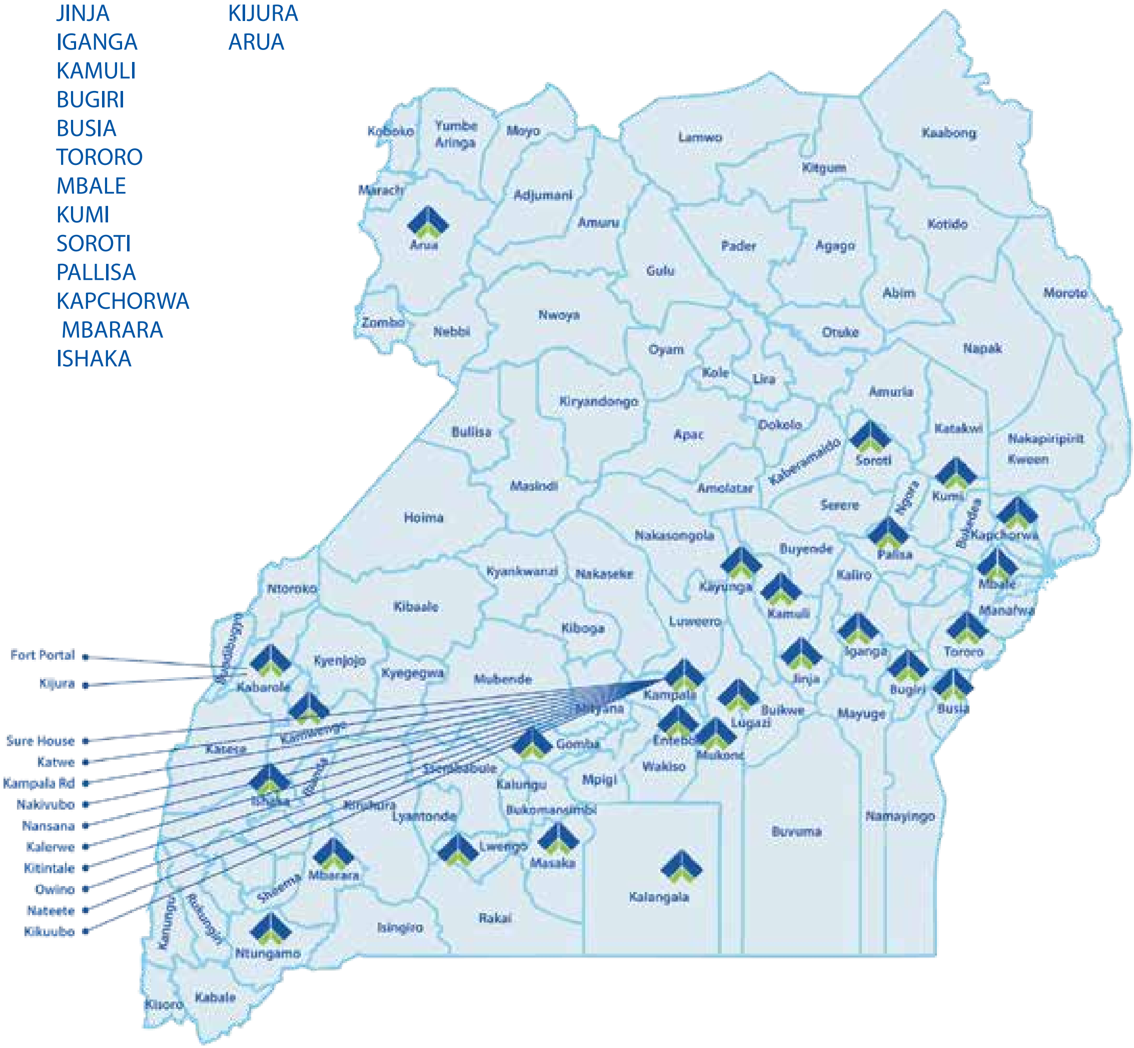
PricewaterhouseCoopers
Certified Public Accountants
10th floor, Communications House
1 Colville Street
P.O. Box 882
Kampala

Branches across Uganda

HEAD OFFICE
CENTRAL
ENTEBBE
MUKONO
LUGAZI
KAYUNGA
MASAKA
KATWE
NAKIVUBO
KALERWE
OWINO
KAMPALA ROAD
KITINTALE
KALANGALA
NATEETE
NANSANA

KIKUUBO
LWENGO
GOMBA
JINJA
IGANGA
KAMULI
BUGIRI
BUSIA
TORORO
MBALE
KUMI
SOROTI
PALLISA
KAPCHORWA
MBARARA
ISHAKA

NTUNGAMO
KAMWENGE
KABAROLE
KIJURA
ARUA



"The Bank's profit after tax crossed the **UGX5.85** mark reflecting a **147%** growth in profitability from **UGX 2.36billion** in the year 2017."

Dr Evelyn Kigozi Kahiigi
Board Chairperson

Board Chairperson's Statement

I am greatly honoured to present the Bank's annual report and financial statements for the year ended 31st December 2018. It has been yet another year of great achievement and progress in our quest to transform the lives and livelihoods of the people of Uganda from a social and economic perspective. The transformation can be attributed to the innovative measures by the bank to avail our customers modern and inclusive financial services.

Operating Environment

The banking sector loan interest rates remained stable with a weighted average lending prime lending rate of **20.5%.** Core inflation rose from **0.8%** in June to **3.9%** in September though below the acceptable **5%.**

The bank has continued to grow, despite 2018 being a relatively challenging year that has been impacted upon by a number of both external and internal factors. The year 2018 was characterized by relatively favourable weather and a rebounding macroeconomic environment with improved GDP growth that was supported by credit expansion in the key sectors of agriculture, manufacturing and construction as well as increased government spending in public infrastructure. Generally, the industry continues to experience low credit appetite characterized by low business activity.

The economy experienced a low and steady inflationary environment and slight weakening of the Uganda Shilling against major currencies. Annual headline inflation rose from 3.3% in Dec 2017 to 2.7% in December 2018 and remained within the Central Bank medium-term target of 5% while the Central Bank Rate (CBR) underwent an upward revision to 10% in a bid to contain inflationary pressures that would have arisen from the weak shilling and the unpredictable weather conditions. The interest rate regime exhibited stability throughout the 12 months period to Dec 2018 which saw rates on treasury bills reduce progressively in all categories at 10.8%p.a.12%p.a and 13.25%p.a respectively for the 91 days, 182 days and 364 days as the year closed.

From the regulatory stance, Bank of Uganda continues to improve the banking industry through improved regulations the financial stability strategy. Notably, during last year, the Financial Institutions Regulation 2018 took effect in September 2018. This enhanced the capital requirements for financial institutions, in order to improve resilience to market and operational risks. This further requires financial institutions to hold additional capital as a cushion for market risk and as such the minimum Tier 1 capital/RWA requirement was increased from 8% to 10.0%.

The banking industry continues with turbulence emanating from the technology space as growing competition from non- banking players pose both threats and opportunities. This heightens the visionary use of technology by banks to be more innovative in products and service provision to the market. The bank is well positioned in this space as one of the best innovative institutions in the industry.

The Bank saw a **21%** growth in deposits from **102.96Bn** in 2017 to **shs124.33Bn.** The bank grew its customer base by **5.1%** from **447,936** in 2017 to **470,950** in 2018.

Financial Performance

As I have highlighted earlier, the Bank performed well registering an operating profit of shs5.85Bn, 147% growth from shs2.36Bn posted in the same period last year. This was mainly attributed to growth in loans and advances, better management of costs and credit risk and an increase in non-funded income arising out of more utilization of alternative transactional channels. In addition, the bank implemented competitive interest rates for loans making it able to attract new as well as retain our existing customers. In the year under review, we witnessed increased business activities and recovery of old debts. The total assets of the Bank grew by 16% to shs206.53bn in 2018 from shs178.78bn in 2017. This was attributed to an increase in net loans and advances by 11% from shs110.42Bn in 2017 to 122.70Bn in 2018. The Bank saw a 21% growth in deposits from 102.96Bn in 2017 to shs124.33Bn. The bank grew its customer base by 5.1% from 447,936 in 2017 to 470,950 in 2018.

Dividends

The Board takes into cognizance balancing between maximizing shareholder value as well as the need to plough back funds into the company for future growth. The board is, therefore, recommending a dividend of UGX 1.754bn which translates to an increase of 147% over the previous year whose standing was at UGX 709million.

Corporate Governance

The bank has well established corporate governance principles, structures and framework to drive the way business activities and thus enable its delivery of sustainable value to its key stakeholders. The Board of Directors recognizes the need to conduct the business and operations of the bank with utmost integrity and in accordance with generally accepted corporate governance practices. The Board sets annual objectives and undertakes an evaluation process to measure performance against the set objectives from time to time. At all times, the Board upholds the principles of independence and separation of duties in line with the Board and Directors' charters.

Focus on Women

In keeping true to our long-standing commitment to the financial and social empowerment to women, in 2018, the bank continued to affirm its position as a bank for women. In partnership with the Uganda Revenue Authority, the bank conducted a financial literacy workshop under the theme Women for Prosperity. Activities such as these help the bank to keep in touch with women while improving their financial decision making and understanding.

Corporate Social Investment

Throughout the year, we maintained our continuing support for the Corporate Social Responsibility initiatives that we have committed as an institution to support financial literacy. Digital literacy was a key focus area especially to the youth being the major beneficiaries of our investments in 2018 through our partnership with Craft Silicon Foundation.

As the youth form over 60% of the population, it became imperatively compelling for the bank to intervene through a digital program using a Mobile Digital van to address the knowledge and skills of the youth in that space. In April 2018, the bank launched a free Digital Education program with a State-of-the-Art Solar Powered Mobile Computer lab at Pan Africa Square-Katwe. The Digital Literacy program is delivered through a van that is equipped with computers and highly mobile to offer practical educational sessions.

During the year 2018, over 500 youth have been trained and certified in computer education and financial literacy in the slum areas of Katwe, Kalerwe, Bwaise, Kazo and Kisenyi thereby fulfilling one of the Banks strategic objectives of leveraging technology to reach out to and support communities.

2019 Outlook

The bank`s commitment to its long-term strategy remains solid in enabling the bank to capture emerging growth opportunities in the market. We expect that the growth momentum will be sustained through maintaining an efficient operating structure, increased outreach through agency network and other technology-driven initiatives as well as prudent risk management. The bank will continue to focus on its forward-looking strategy and optimism in delivering better results in 2019

Appreciation

On behalf of the Board of Directors, I wish to recognize the various contributions made by all stakeholders towards the Bank's strong performance. Much appreciation goes to our customers and shareholders and other stakeholders for the continued support and confidence vested in the bank. I also wish to acknowledge and appreciate my fellow Directors on the Board for their enduring and conscientious leadership rendered to the bank.

I take this opportunity to thank the Management Team and Staff for their commitment, professionalism, teamwork, enthusiasm and diligence in serving the Bank customers

As we continue driving the Bank towards a 'Bank of Choice', we look forward to yet another successful year 2019.

....

Board Chairperson
Dr. Evelyn Kigozi Kahiigi


DIGITAL IMPACT AWARDS AFRICA
Winner!
Commendation for Advancing Financial inclusion of women
Thank you for voting for us!

"The year brought other significant achievements which include our deposits growing by **21%** while loans and advances by **11%** and Total assets by **16%**."

Annet Nakawunde Mulindwa
Managing Director

Managing Director's Statement

↑ 5.85Bn

The Bank posted net profits of Shs. 5.85billion, registering a 147% growth from the prior year result.

↑ 16%

The Bank expanded by 16 % to close the year 2018 at Shs 206.5billion in total assets from Shs. 178.8billion registered in 2017.

↑ 4%

Total operating expenses increased by 4% to Shs. 40.1Billion from Shs. 39billion in 2017.

We are pleased to report that 2018 was a good year with very significant progress represented by the key performance indicators. During the year, the Bank steadily grew it's balance sheet in line with the 3-year Strategic plan to deliver a 16% rise in balance sheet size. This growth was attributed to sustained focus on delivering value to our customers through maintenance of valuable products and services.

The above growth trends were in the midst of a volatile macroeconomic environment specifically in the areas of foreign exchange rates coupled with the slow growth in Private sector credit.

Performance Review

The year 2018, marked the second year in our 3-year Strategic Plan 2017-2019. We are glad to report that again, the Bank achieved the targets for the year in all key performance indicators.

On the balance sheet front, the Bank expanded by 16 % to close the year 2018 at Shs 206.5billion in total assets from Shs. 178.8billion registered in 2017. Net Loans and advances to customers increased by 11% to Shs. 122.7billion from Shs. 110.2billion in 2017, while the investment portfolio more than doubled to Shs 40.1billion from Shs 19.6billion. Customer deposits increased by 30% from Shs. 107.3billion in 2017 to Shs. 139.7billion in 2018 as the Bank deployed deliberate interventions to replace expensive funding lines with cheap alternatives.

Due to the above balance sheet movements, Interest income, the main revenue line for the Bank grew to Shs. 40billion in 2018, from Shs. 35.5billion recorded in 2017. Interest expense reduced from Shs. 8.6billion in 2017 to Shs. 8.2billion in 2018.

Total operating expenses increased by 4% to Shs. 40.1Billion from Shs. 39billion in 2017. This relative to the 10% growth in total revenue returned an improved cost to income ratio of 87% relative to the 93% posted in prior period.

Following from the above P&L dynamics, the Bank posted net profits of Shs. 5.85billion, registering a 147% growth from the prior year result.

The significant improvement in the profit position resulted from the dedicated teamwork coupled with increased use of technology based delivery channels. These translated into revenue growth, lower loan impairment and operational cost efficiencies.

Strategic Milestone & Business Development

The Bank has gone through tremendous change in line with the Five Year strategic plan, which we embarked on in January 2017. We pride in the milestones that we have achieved so far. These are manifested in the sustained profitability and the continuous investment into the future growth of the bank as we work towards becoming the bank of choice. In the year 2018, we continued to build on the strategic foundations we laid in 2017 and have registered notable progress in a number of aspects.

Our staff have continued to be the most important resource as we drive the transformation strategy to deliver sustainable business growth. Accordingly, the Bank invested in training staff on products, operations, credit and sales across all functions. In addition, we injected new experience into the Bank from the external market to blend well with the relationships and the institutional memory in place. I thank all our employees who have dedicated so much time and energy to make Finance Trust Bank achieve the great results noted above.

The business segments – Women and youth, Institutions, Saccos & VSLAs, Treasury, and Financial Inclusion all continue to grow and contribute to the growth of a diversified balance sheet and revenue streams. We now have stronger sales capacity and capability in our frontline staff in branches and customer relationship officers backed by central support and operations functions in head-office. We continue to invest in product innovation and superior service delivery standards in all our customer touch points. We have obtained a new license for Bancassurance and launched our Water & Sanitation Loan in partnership with Water. Org. During the Digital Impact Awards Africa, FTB was commended for Advancing Financial Inclusion to Women using our Loan Ku Simu.

We continue to enhance the operational efficiency of the Bank through automation of back office processes thus eliminating duplications and delivering standard service at a cost effective level. We have automated the Anti-money-laundering (AML) screening and monitoring. We have also used technology to expand our scope in terms of outreach by on-boarding Agents. By close of 2018, the Bank had deployed 14 Agents in the different parts of the country having commenced this operation in Dec 2018.

14 Agents

By close of 2018, we had 14 Agents in the different parts of the country.

Customer Service is vital for growth of our business in a competitive environment where there are more than 25 banks to choose from. We therefore invested in setting up a 24/7 Customer Contact Centre, expanding our digital and physical customer contact points. We redesigned and rebranded our branch network to facilitate more efficient service delivery in a pleasant ambiance. We have trained our front line staff in better customer service management and we shall continue to conduct surveys to ensure service standards are met across our branches.

Outlook for 2019

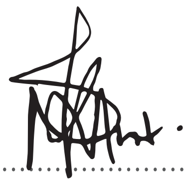
During the year 2018, the stiff competition in the Banking industry continued to prevail thereby shrinking margins on Bank business. We project this tight stretch to persist into 2019. However, we remain optimistic and confident that we will continue to grow stronger by staying focused and committed, growing our market share, taking on the challenges of competition and exploiting the opportunities availed by the growing economy. Customer satisfaction will continue to sit at the core of our operations, as we believe that this is the key to unlocking business potential.

Conclusion

As I conclude, let me take this opportunity to thank all our Shareholders who stood with us in delivering the 2018 success. On behalf of management and staff of Finance Trust Bank, I wish to extend our appreciation to our Board under the leadership of Dr. Evelyn Kigozi Kahiigi for their continuous support, encouragement and guidance.

It is also notable that the successful performance during the year would not have been possible without the dedication and teamwork of my entire staff fraternity and for that I thank them.

I wish in a very special way to thank our dear customers whose support has brought us thus far. Your loyalty has created a strong foundation and set a background upon which we can rely to grow even stronger. We are committed to serving you even better and keep adopting the most convenient platforms and products so that we remain your bank of choice.



Managing Director
Annet Nakawunde Mulindwa

Executive Management

Annet Nakawunde Mulindwa
Managing Director

Annette Kiggundu
Executive Director

Patricia Kemirembe Katende
Company secretary/ Head, Legal

Percy Paul Lubega
Head of Business Development

Rachael Nantongo
Head of Banking Operations

Ali Lwanga
Head Credit

Dr. Richard Ssekibuule
Head ICT

Christine Namata
Head Finance

Fredrick Muyanja Musoke
Head Internal Audit

Stella Naigulu
Head Human Resource

Martin Acegere
Head Risk

Sarah Gwokyalya
Compliance Manager

Isa Mukasa Kikomeko
Ag. Head of Treasury


Get a
Loan ku Simu
instantly
from as low as
ush 50,000
TRUST
mobile
Dial
*224#
or
GET IT ON
Google Play

GOVERNANCE AND RISK MANAGEMENT

a. Statement of Corporate Governance

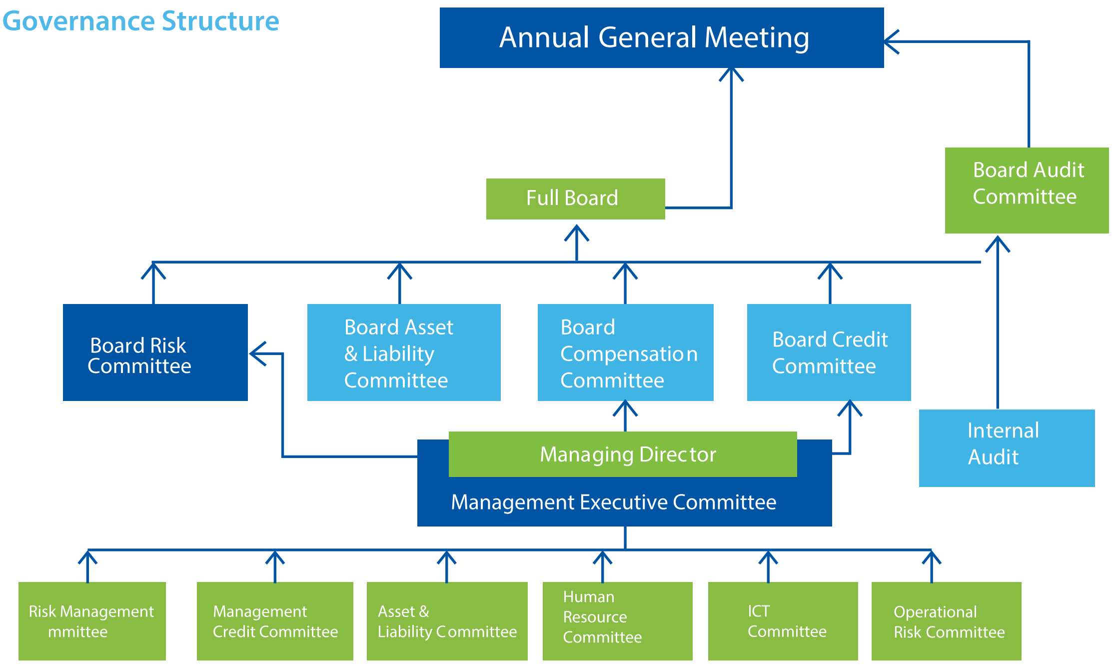
The Board of Directors

The Board of Directors is elected to represent shareholders and its mandate is to establish policies for corporate management and oversight. The Board of Directors is composed of a mix of international and local directors with good expertise and diverse wealth of experience. The Board meets quarterly and the Annual General Meeting is held once a year. The Board has 5 committees. These include; Board Audit Committee, Board Risk Management Committee, Board Asset and Liabilities Committee, Board Compesation Committee and Board Credit Committee.

Governance

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

The Governance Structure



The Board Credit Committee (BCC)

The BCC is composed of a chairperson and at least two non-executive members of the Board. The Board Credit Committee is charged with assisting the Board in monitoring the growth and quality of the credit portfolio and to ensure compliance with regulatory requirements. The Board Credit Committee sits quarterly and is charged with the following responsibilities:

Review and oversee the overall lending policy of the Bank and be informed of the Institution's credit practices and procedures.

Deliberate on and consider loan applications beyond the discretionary limits of the Management Credit Committee;

Direct, monitor, review and consider all issues that may materially impact on the present and future quality of the Bank's credit risk management;

Review and delegate lending limits to the sanctioning authorities of the Bank;

Assist the Board in discharging its responsibility by reviewing the quality of the Bank's loan portfolio, and ensuring adequate provisions for Non Performing Loans in compliance with Prudential Guidelines of BOU on risk classification and provisioning of assets;

Conduct loan reviews independent of any persons or committee responsible for sanctioning credit;

Ensure that the credit risk strategy and policies are effectively communicated throughout the Bank to enable the Bank to adopt safe and sound banking practices.

Monitor management's compliance with all other regulatory requirements including, the BOU Act, Financial Institutions Act, BOU Prudential Regulations, and Circulars issued by the Bank of Uganda of Uganda and any other relevant laws in force, and ensure implementation of any recommendations made by them.

Review and Oversee the activities related to Credit Reference Bureau within the bank to ensure compliance with the laws, guidelines and regulations, and ensure continuous improvement of quality of data submitted to the Credit Reference Bureaus.

The Board Assets and Liabilities Committee (BALCO)

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

Ensuring compliance with statutory requirements (cash reserve, liquidity, capital adequacy e.t.c) stipulated in the FI Act 2004, Regulations there under / BOU Guidelines and directives from time to time.

Provide and review policy guidelines for Assets-Liability management in line with the Bank's corporate goals.

Recommending a mix and maturity profile of incremental assets and liabilities.

Advising on the Funding Policy i.e. to decide on the source and mix of liabilities or sale of assets.

Monitoring the Bank's policies, procedures and holding portfolio to ensure that goals for diversification, credit, quality, profitability, liquidity, community investment, pledging requirements and regulatory requirements are met.

Review, monitor and advise on the performance of the Institutional budget.

The Board Risk Committee (BRC)

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

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

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

Ensure that the bank information systems are secure and adequate to support the delivery of the bank's strategic objectives.

Board roles & responsibility

The Board acts as agents of the shareholders and is accountable for the performance and affairs of the company. It delegates its authority to Board committees and Management, remains responsible and accountable.

The Board exercises leadership, enterprise, integrity and good judgement in directing the company so as to achieve sustained prosperity for the company and acts in the best interests of the company.

The Board performs the following oversight roles and responsibilities:

(1) Policy Formulation
(2) Strategic Thinking
(3) Accountability
(4) Monitoring and Control

The Board activities in the year

Board Committees;
The Board constituted five committees namely:

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

This is in addition to the full board chaired by Dr.Evelyn Kigozi Kahiigi. The composition of the committees was as follows:

Board Assets and Liabilities Committee (BALCO)
Lydia Koros -Member
JL de Montesquiou -Member
Loic de Canniere -Member
Mary Oduka Ochan -Member

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

Board Risk Committee (BRC)
Tor G. Gull - Member
Grace Aliakai - Member
Albert Otete - Member

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

Board Compensation Committee (BCOM)
JL de Montesquiou - Member
Mary Oduka Ochan - Member
Robert Kirunda - Member

New Developments on the Board

During the Bank of Uganda onsite supervision examination, it was recommended that the Board Audit Charter is amended to eliminate the attendance of the audit meetings by the Board Chairperson. It was also recommended that the Board Manual is amended to allow the Executive Director evaluate the Chairperson's performance just like all other Directors. The Regulator also observed that the Board had very few independent Directors and recommended that more independent Directors are appointed to the Board.

Appointments to the Board;

Two new alternate Directors joined the Board. These were, Mr. Kevin Kamemba representing Rifnorth 1and Mrs. Patricia Asiimwe Kahiigi representing Founder Members.

Exits:

During the year 2018, the Board had one resignation from the Executive Director, Mr. Dennis Kakeeto who was internally replaced by Mrs. Annette Kiggundu, the former Head of Treasury and International business.

Board & Committee Meetings.

During the year 2018, the Directors remained active regularly attending Board and Committee meetings. The Board and board committees convened four times during the year. During the year the Board held a strategy retreat with Management to review the strategy of the bank for the year 2018.

The Board Audit Committee (BAC)

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

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

Review the scope and the effectiveness of the Internal Audit Department and provide direction on enhancing the utility of the Department through clearly laid down processes, procedures and time frames.

Review the internal audit report and audit programs of the bank.

In line with the current practice, the BAC handles the recruitment of Head of Internal Audit and refer to board for ratification.

BAC evaluates the Head of Internal Audit in consultation with the chairman of the Board, and recommend to the management the remuneration including annual increments and performance bonuses.

Commission such ad-hoc internal audit assignments as deemed necessary by BAC, management or the Board.

Review the internal controls, operating procedures and systems and management information systems of the bank.

Review the financial statements of the Bank and make recommendations.

The Board Compensation Committee (BCOMC)

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

Review and make recommendations to the shareholders for remuneration, including incentives, for the Board and Senior Management.

Consider and approve the organizational structure of the Bank and ensure that the bank has an up-to-date succession plan for officers holding senior managerial positions.

Ensure that the welfare of bank staff is adequate that is, staff remuneration and benefits are within the ability of the Bank to sustain as well as sufficiently oriented towards open market trends.

Ensure that management promotes and / or maintains a conducive working environment, good employee relations, throughout the bank; that the culture of merit and professionalism evolves, thrives and percolates throughout all categories of employees.

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

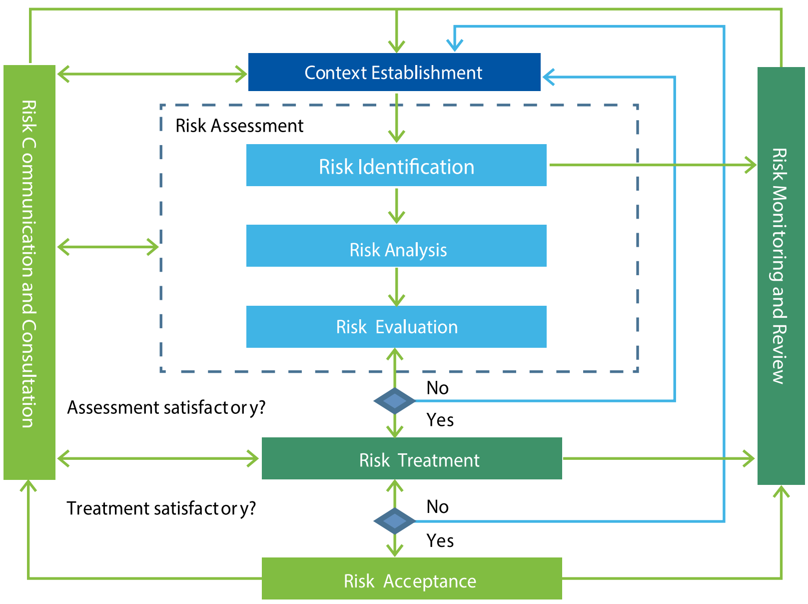
b. Risk Management

Risk management is at the core of all decisions made by the bank. 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".

Risk Management process

The Bank manages risk, by identifying, analyzing it and then evaluating whether the risk should be modified by risk treatment in order to satisfy its risk criteria. Risk management in the Bank is applied at all areas and levels at all times as well as to specific functions, projects and branches to ensure that risk is managed effectively, efficiently and coherently across the bank.

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



The Banks risk management process is initiated through establishment of the context of risk management. By establishing the context, the Bank articulates its objectives, defines the external and internal parameters to be taken into account when managing risk, and sets the scope and risk criteria for the remaining process.

Risk identification involves determining what could go wrong (likelihood) and what the consequence or impact (loss or damage) of it occurring.

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

Risk treatment involves identifying the range of options for treating the risk, evaluating those options based on significance of the risk, whether the cost of the option is commensurate with the benefits of treatment, preparing the risk treatment plans and implementing those plans.

Monitoring and review is an ongoing part of risk management. Few risks remain static. 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. Constant monitoring and review ensures that the risk treatment options remain appropriate to the identified risks.

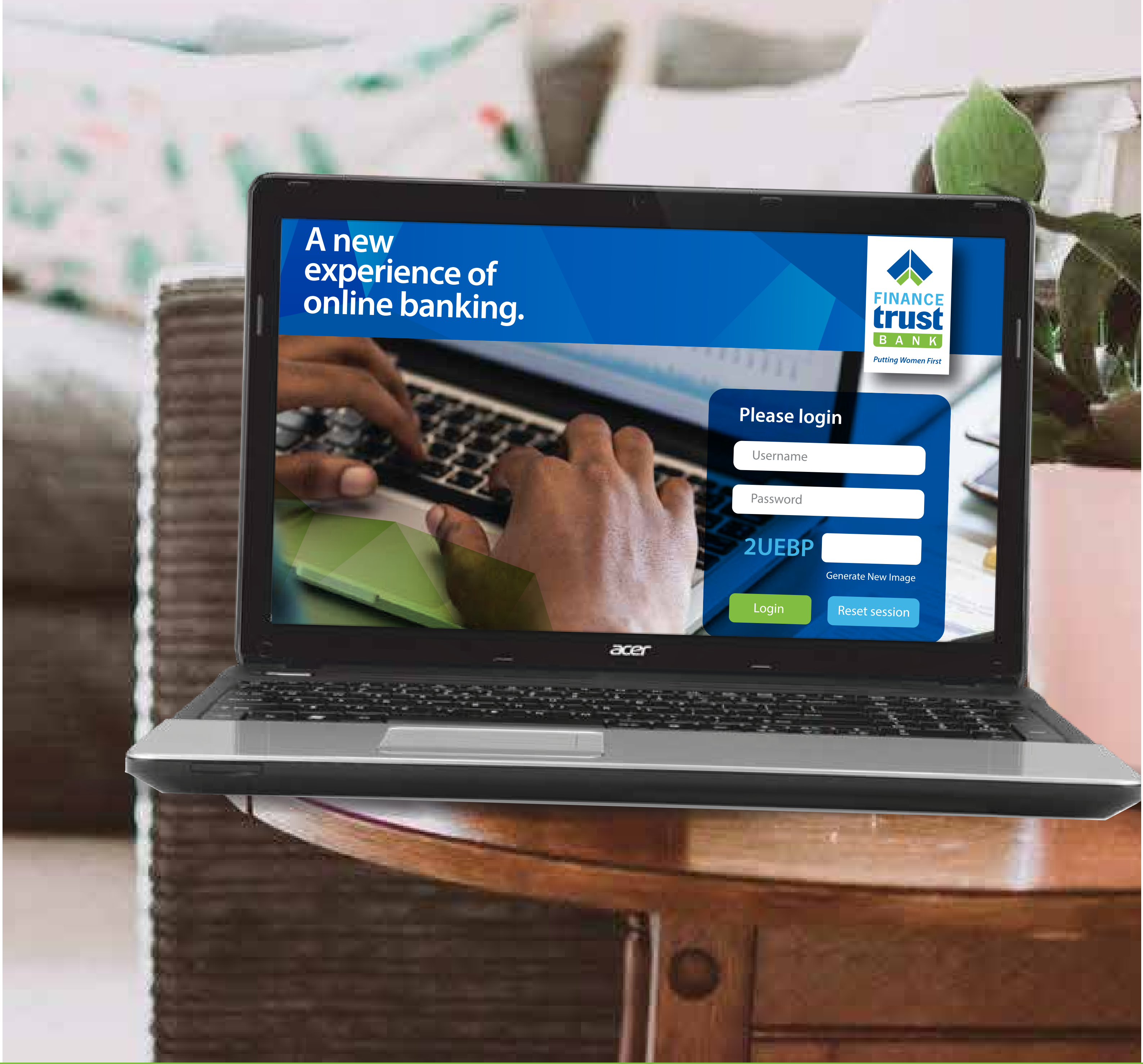
Risk communication to the stakeholders of the Bank, is an ongoing activity that is done through the risk assessment reports that are discussed in the monthly and quarterly management and Board risk committee meetings.

Risk Management Department

To coordinate the implementation of the risk management process the Bank has in place an independent risk management function. The Risk Management Department on a pro-active basis identifies, analyses, evaluates and develops treatment options and risk acceptance criteria for the available options.

The risk levels are then communicated and monitored through the risk committees. The Risk Management Department ensures that the Bank takes risks that are warranted i.e. risks that are understandable, measurable, and controllable and within the Bank's risk bearing capacity to readily withstand adverse results.

Take total control of banking at your Comfort.



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

Board of Directors

Dr Evelyn Kigozi Kahiigi
Board Chairperson

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

Evelyn is the current PTA Chairman and Board member of Gayaza High School. She is a youth mentor and an advocate for academic and social excellence. Her interests are inclined towards ICT4D in the field of E-learning Entrepreneurship and Health Informatics to support, enhance and sustain a better quality of life for the underprivileged and marginalized groups.

Evelyn holds a PhD in Computer and System Sciences from Stockholm University, Sweden.

Annet Nakawunde Mulindwa
Managing Director

The Managing Director of Finance Trust Bank, Mrs. Annet Nakawunde Mulindwa is a banker by profession with over 14 years' practical experience in Banking and Micro nance. Previously she has worked in various capacities, at Finance Trust Bank as Head of Operations, and Operations & Compliance Manager. Prior to Finance Trust Bank, Annet held various key positions at Pride Micro nance and Nile Bank Ltd.

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

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

Annette Kiggundu
Executive Director

Annette Kiggundu is the Ag. Executive Director of Finance Trust Bank. She joined the Bank in May 2016 as Head of Treasury with over 12 years of progressive banking experience in the fields of treasury and financial management, International business, Risk, Compliance and Operations.

Previously, she worked with UBA Uganda and Centenary bank.

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

Mr. Tor. G. Gull

Director

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

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

From 1978 to 1982 Tor worked with the Nordic Project for Cooperative Development in Tanzania and Kenya developing and supporting credit unions, and small-scale businesses in various parts of the countries.

His experience also includes financial management positions in the Pulp and Paper Industry in Finland.

Since his retirement from Oikocredit Tor has continued his involvement in the financial sector through directorships and memberships in banks, investment funds and institutions active in impact investing, microfinance and other development projects.

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

Loïc De Cannière

Director

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

Recently, incofin investment management launched "Fairtrade Access Fund", an impact investment fund providing finance to Fairtrade labelled producers organisations worldwide.

He actively promotes the inclusion of social performance parameters into microfinance and impact investments, by partcipating in the PIIF Steering Committee and by adhering to other initiatives, such as the Social Performance Task Force. Before he joined Inco n, Loïc De Cannière was responsible for structured finance at the DEME Group, where he structured large port and environmental projects in Tunisia, Ghana, Nigeria, Qatar, India, Bangladesh and Taiwan. Loïc De Cannière studied economics and philosophy at the Universities of Louvain (Belgium) and Munich (Germany).

Albert Richards Otete

Director

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

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

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

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.

Mary Achan Oduka-Ochan
Director

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

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

Grace Namulinda Aliakai
Director

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

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

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

Robert Kirunda
Director

Robert Kirunda holds a Masters in Law (LL.M) International Legal Studies Program (ILSP) from the American University Washington College of Law, a Masters in Law (LL.M) in international Trade and Investment Law from University of the Western Cape, South Africa, a Post graduate in Legal Practice(Bar Course), Bachelors of Laws . Robert is the founding partner at Kirunda & Wasike Advocates where he works since December 2012. He lectures at Makerere University Kampala and has worked with JN Kirkland and Associates (Law firm), Makerere University Business School department of law and Shonubi, Musoke & Co. Advocates. He served in a capacity of a Legal Vice presidency, World Bank Group Washington D.C Intern from January to April 2008. Robert is a member of the following professional bodies- Uganda Law Society, East African Law Society, Uganda Christian Lawyers Fraternity and has authored several publications.

David Senoga
Alternate Director

David Ssenoga has 27 years' experience in banking, Microfinance, auditing and financial reporting. He holds a Master's of Science Degree in Finance and Accounting, and a Bachelor's Degree in Commerce, of Makerere University- Kampala. He holds a CPA and is an active member of ICPA(U) and is the appointed auditor of the Institute of Certified Public Accountants of Uganda (ICPAU). He also serves on Makerere University Retirement Benefits Scheme Trustee Board as the Chairperson of the Scheme's Audit Committee. Currently he is a practitioner at SDS & Company Certi ed Public Accountant.

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

Jeremy Hadjenberg
Alternate Director

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

Andrej Machacek
Alternate Director

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

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

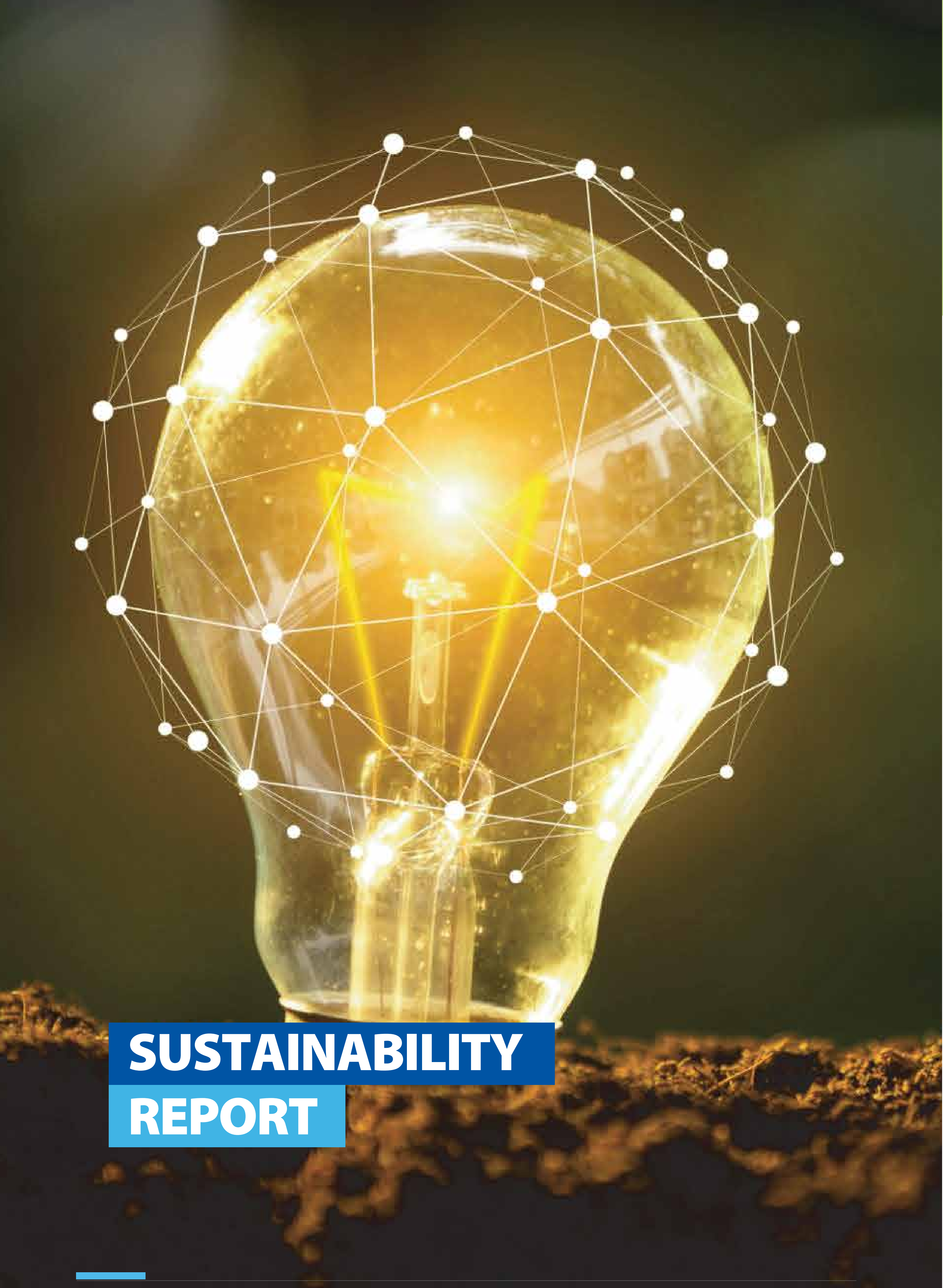
Andrej obtained his Bachelor of Arts degree in Economics and Management from Balliol College, Oxford and an MBA from Harvard Business School. He is an Open Society

Patricia Kemirembe Katende
Company Secretary / Head, Legal

Patricia Kemirembe Katende has 10 years of professional experience in law and in-house legal counsel services. She is a Charted Corporation Secretary, a member of the Institute of Chartered Secretaries and Administrators (ICSA) UK, a holder of an honors Bachelor's Degree in Law from Makerere University a post graduate diploma in legal practice from the Law Development Centre, Kampala.

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

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



SUSTAINABILITY REPORT

Customer Experience

Customer Relationship Management

2018 has been a year of many firsts for Finance Trust Bank and key among the firsts was the introduction of the Customer Relationship Management model as a tool to improve the bank's assessment of the needs of our SME client segment. Client Relationship Officers were recruited in the bank's branches. The implementation of this model is responsible for the growth in the bank's deposits. The bank reduced its reliance on fixed deposits and grew its free deposits from 102Bn in 2017 to 124Bn in 2018. 2019 will be a better year for the Bank as it closes gaps in the implementation of the CRM model across other customer segments.

Call Centre

One of the core values of the Bank is customer focus. Customer focus influences are product development among others but more keenly, the need to hear what our customers think is the reason the Bank has a Call Centre among other customer feedback methods. Following the institution of a customer toll free number 0800220500. The bank is now able to produce real time reports on customer queries and solutions offered and some of these queries have influenced some policy changes in our product offering.

Products and services

A large range of products and services has always been the trademark of the Bank. At Finance Trust Bank, we believe that the various needs of our customers cannot be met with "one shoe fits all" kind of product. It is the reason various products are offered to our customers for our Savings and Credit segments as well as value added services.

In 2018, the bank introduced and launched Bancassurance services following the amendment of the FIA to allow banks serve as insurance agents. In that light, the Bank partnered with UAP- old Mutual, Jubilee Insurance, CIC, Liberty, SWICO and Sanlam insurance companies to offer both general and life policies to our customers.

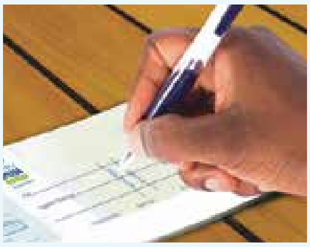
Agent Banking

In 2018, the Bank introduced Agent Banking following the amendment of FIA to allow this type of non-branch transaction. Finance Trust Bank partnered with Agent Banking Company and set up 72 Agents across the country. Ofcourse by virtue of being on the ABC platform, Finance Trust Bank customers were able to transact through agents of other banks. In 2018 alone, the bank had over 2,000 deposit transactions.

Mobile banking service

Our customers can now access their accounts anytime, anywhere, to check their account balances, get mini Statements, and transfer money from one account to another, pay bills like Electricity bills, Water bills, Pay TV. Our customers can also deposit and withdraw from their accounts using Trust Mobile which is integrated with MTN mobile money and Airtel Money.

Deposit products



Trust Savers Accounts

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

Current Accounts

Personal Current Accounts
Business Current account
Forex Current Accounts

Trust Youth Savers Accounts

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

Trust Group Accounts

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

Fixed Deposit Accounts
Other Savings Accounts

Staff Savings

Credit products

Business Loans

SME/Micro/Corporate Loans
Bank Overdraft
Renewable energy Loans
SACCOs and VSLA loans
Insurance Premium Loan
Women in Business Loan
Individual personal loans
School Fees Loan
Renewable Energy Loan
Salary Loans
SmartHome Loan

Agriculture Loans

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

Asset Finance Loans

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

Trust Mobile Loan / Loan Ku Simu

(Accessed via Trust Mobile)

Off balance sheet products

Bank Guarantee
Letters of Credit

Other Services

We provide our customers with RTGS and EFT, plus many more value added services including: Western Union, MoneyGram, Kendy, Airtel Money, M-Sente, MTN Mobile Money and payments for DSTV, KCCA, URA, eWater Payment, Umeme and NSSF.

Value Added Services

- Money transfer services (through Western Union, MoneyGram, Kendy Pan African, money transf services, EFT, RTGS)
- Mobile money services (through MTN, Airtel, Msente)
- Utility bills collection (National Water, DSTV, Umeme)
- NSSF collections, URA payments, KCCA collections
- School fees collections
- Micro-insurance (indirectly provided by our insurers)
- Mobile Banking Services

Finance Trust Bank serves micro, small and medium entrepreneurs, salary earners and youth, who are involved in a wide range of economic activities that include;

Agriculture

This includes agricultural activities along the value chain (i.e. Production, Processing and Marketing), including crop farming, animal rearing, poultry breeding and fish breeding, processing agricultural products and marketing of agricultural produce

Trading

Including groceries, wholesaling and retailing assorted merchandise, motor spares, clothing and textiles, timber, hardware, etc.

Building and Construction

Including fabrication of building materials, and construction of housing and commercial establishments.

Renewable Energy

Clean energy for domestic and commercial purposes e.g. solar, biogas, etc

Services

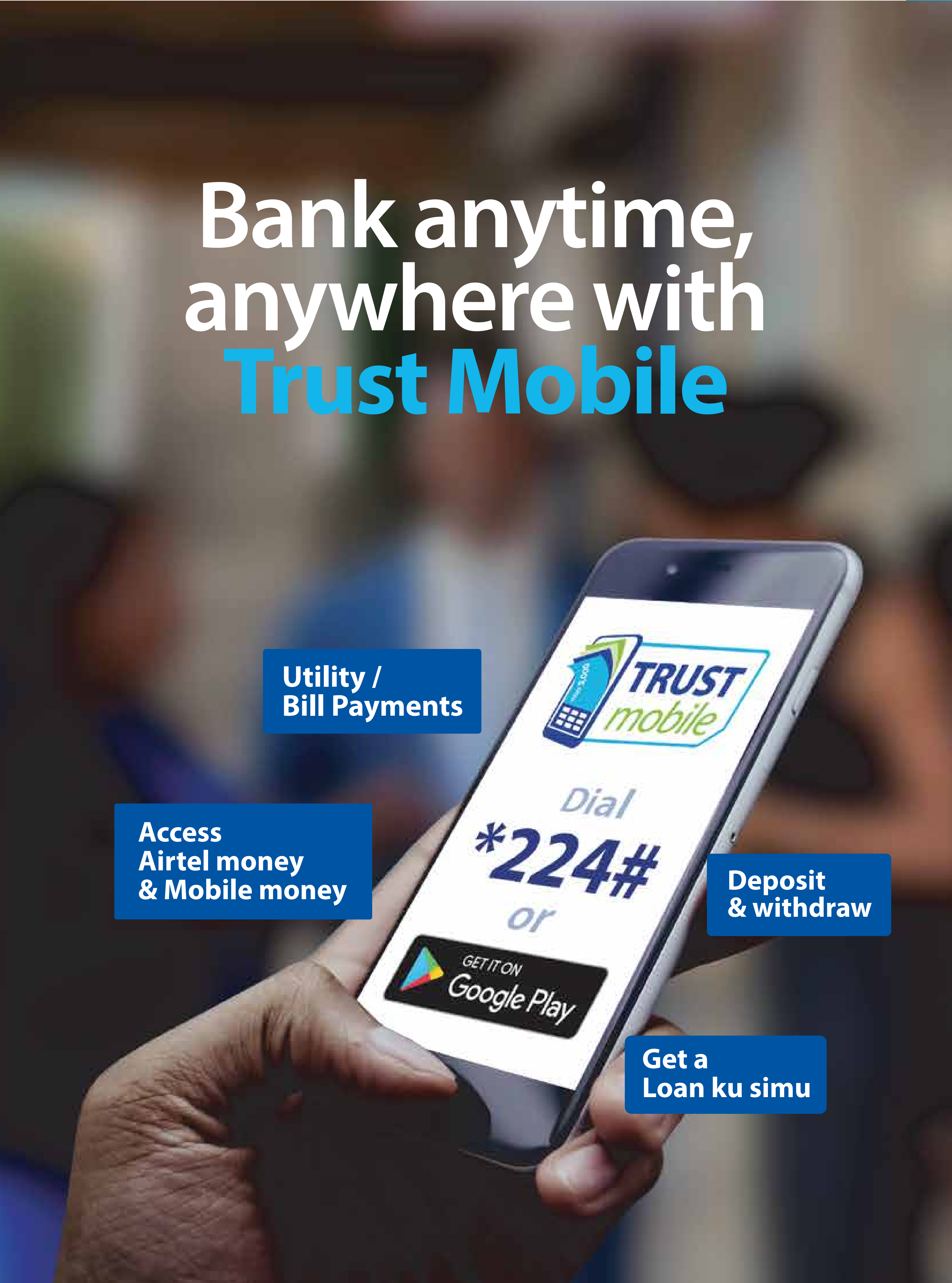
Business service related activities e.g. Restaurants and bars, beauty shops, schools, medical centres, pharmacies etc.

Manufacturing and Production

Including carpentry, tailoring and textile houses, bakeries, shoe factories, machinery, foodstuffs, beauty products, etc.

Transport

Transportation activities and purchase of automotive devices - cars, boda bodas, trucks, for personal and commercial use.


Bank anytime, anywhere with Trust Mobile
Utility / Bill Payments
Access Airtel money & Mobile money
TRUST mobile
Dial *224# or
GET IT ON Google Play
Deposit & withdraw
Get a Loan ku simu

Branch Relocation and Customer Engagement

Last year, the Bank relocated the Pallisa Branch to a more spacious and convenient location on Plot 11 Block B Gogonyo Road, Pallisa Town,Pallisa District. The Branch was opened at a ceremony graced by the LC. V Chairman Pallisa District, Mr. Okurut John Micheal, and thereafter we hosted our customer to a sumptuous dinner at Country Inn Hotel Pallisa.

Customer testimonial

Finance Trust Bank helped Biira achieve her dream

Her passion for women has been a driving factor in the life of Esther Alice Biira, a high-risk sonographer at a Woman's Place. In 1988 when she started her education as a teacher majoring in French at Makerere University, she barely had a say in what she wanted to do nor did she have inkling that she would be here today. "Although I did not have passion for teaching, it was all I had and went for it. Nonetheless, I am thankful that we had the opportunity to go and study abroad to finish our degrees. In my case, it was French, which I did in France and got an advanced diploma in teaching from Universite De Franche compte Besancon.

From there, I moved to the US to see what was there for me." while she had option to choose from any field in the medical field, which was her love as general medicine, cardiac, vascular or paediatric, she decide on obstetrics and gynaecology, because women's health had always been close to her heart.

"I found the field interesting because I looked at fascinating things like the inside of a human body or growth of a baby in real time. I was indeed reborn because I was where I knew I belonged". She says.

In 1997, she graduated from Middlesex Community College (MCC) with an associate degree in Allied health science. After her training at the Women's Hospital Massachusetts, she was employed at Women's Hospital Texas for six years.

Biira attests that the environment is very competitive and one had to be extremely good to survive. "I saw several colleagues dropped on grounds of not being good enough. It was a joy to finally graduate as well as get placement," she says.

Biira was in US from 1998 to 2004 after which she returned to Uganda in October of 2004after securing employment at SAS Clinic Inc. as a high-risk ultra sonographer.

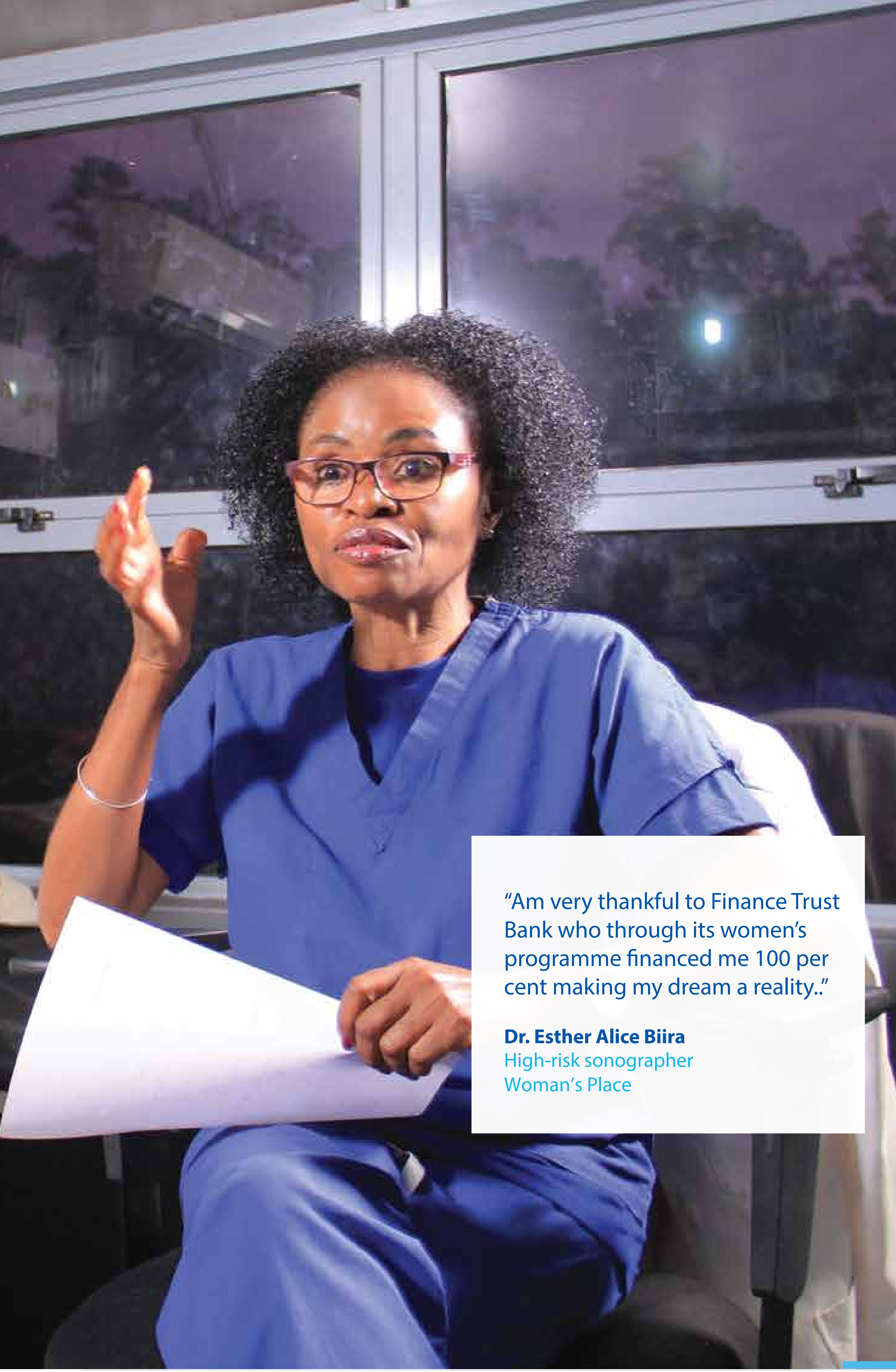
"I had seen the need for my service back home so I decided to return and put my knowledge to use. I have been working as a high-risk sonographer since, taking care of at risk mothers plus everything related to women's health. High risk pregnancy means, pregnancy that puts the mother and the unborn baby at risk of death during pregnancy or at the time of delivery," she adds.

She is able to assess the risk, the gravity enabling the clinician or obstetrician to make decisions based on the findings to give the mother and the child better outcome. "I work very closely with obstetricians and gynaecologists who refer these mothers to me". After So many years in formal employment, In 2015, Biira moved on to start her own practice, A Women's health more so because they are the backbone of society and yet their health is not really stressed.

"I encourage every woman that walks through my doors to take care of their health. I can do this because I am self-employed which gives me room to do things I love; I get to schedule appointments in a way that allows me to interact with patients beyond the test. We talk plenty and I have made great friends with many of them," she says.

She also deals with infertility cases and walks the journey with these women to as far as taking them to the right medical personnel and monitoring them irrespective of whether they can pay or not. "I offer some free services through follow ups because their health on many occasions is primary to money".

Effectively performing these high risk-imaging calls for good equipment with resolution to give good results. Biira is thankful to Finance Trust Bank who through its women's programme financed her 100 per cent making her dream of opening the doors of A Woman Place a reality.



"Am very thankful to Finance Trust Bank who through its women's programme financed me 100 per cent making my dream a reality.."

Dr. Esther Alice Biira
High-risk sonographer
Woman's Place

Partnerships

Launch of the Bancassurnace Services

The bank received its license to conduct business as Bancassurance Agents and thus started offering insurance services to its customers in partnership with Sanlam General/ Life, Statewide Insurance, UAP Life/General, Liberty Life/General, Jubilee Life/General, International Medical Link (IML), CIC Life/General'. By 31st December, 2018, the Bank was able to collect premiums worth Shs. 248 Million for life and general polices issued to its customers.

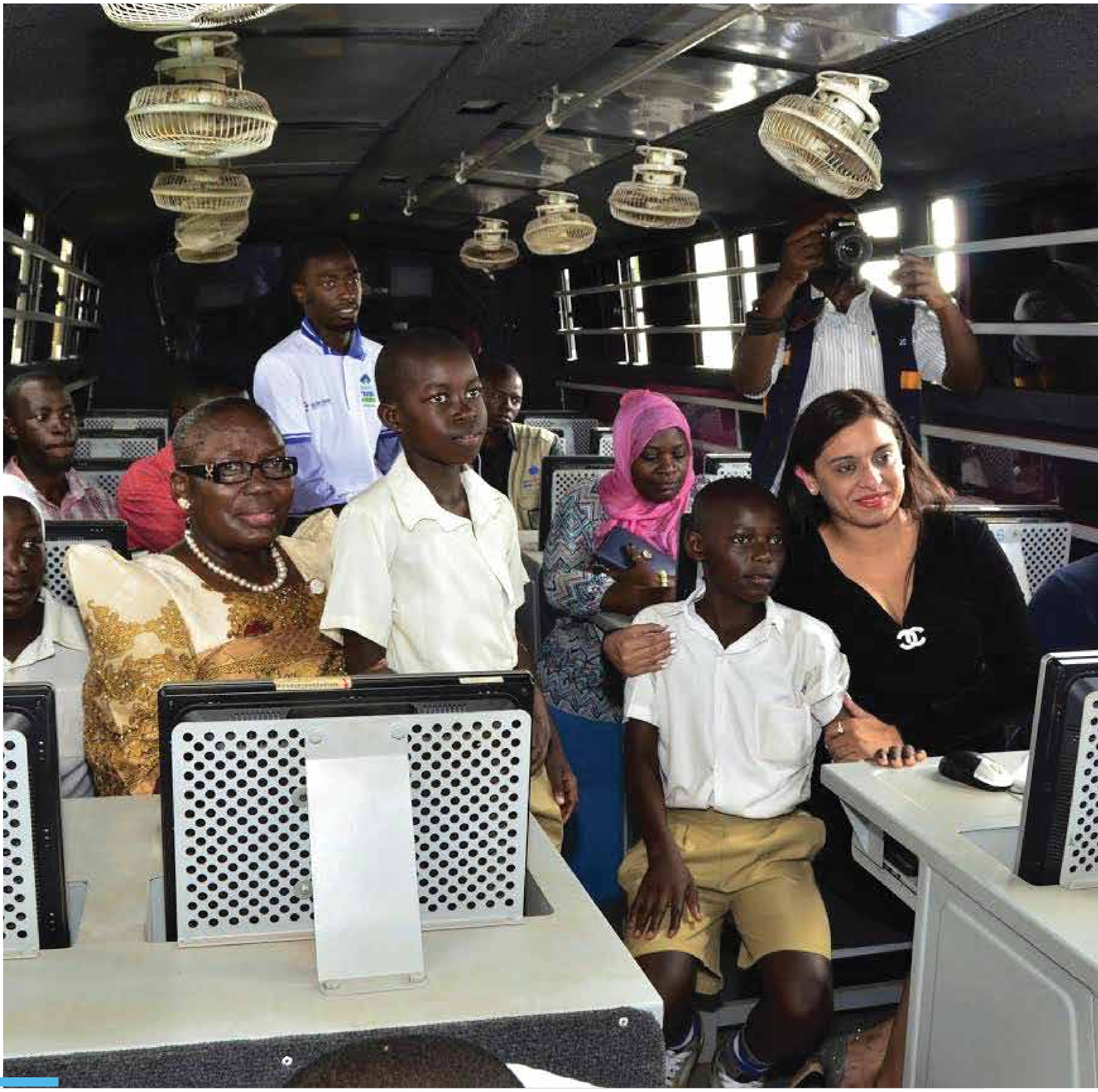
Extending Water to the nearest communities

The Bank in partnerships with Water . Org rolled out a Water and Sanitation loan aimed at extending safe and clean water to the low income earners in the country with a target of improving livelihoods especially in rural areas and urban slum centres. By end of December 2018, the Bank had disbursed over Shs. 3.4Billion to over 118 customers and these benefited over 7,000 people. The Trust Water and Sanitation loans where available in all the 36 branches and were given at affordable rates to individuals, institutions as well as customers who trade in water and sanitation equipments. These facilities include piped water networks, rain water harvesting, construction of toilet facilities, and connection to national water grid, tapping gravity flow water or accessing underground water and construction of boreholes. One can borrow from as low as Shs. 300,000 for a maximum of 60 months payable on monthly, quarterly depending on the customers' sources of income.

Corporate Social Responsibility

Focus on the girl child through digital literacy

The Bank launched the Free Digital Education program with a State-of-the Art Solar Powered Mobile Computer lab to youth especially girls between ages of 10-18 from slum areas of Katwe, Kisenyi, Bwaise, Kazo and Kalelwe. This was in partnership with Craft Silicon Foundation. Over 528 have benefited with 420 graduating soon.



People Management

IIn 2018, the Bank achieved remarkable financial performance which was achieved through a robust, young, competent and agile workforce.

Employee attraction

The Bank continued to attract high quality candidates due to employing best industry HR practices in people management.

Staff performance was continually recognized and rewarded and the Bank deliberately implemented a successful career path program which saw several promotions and retention of key talent within the bank.

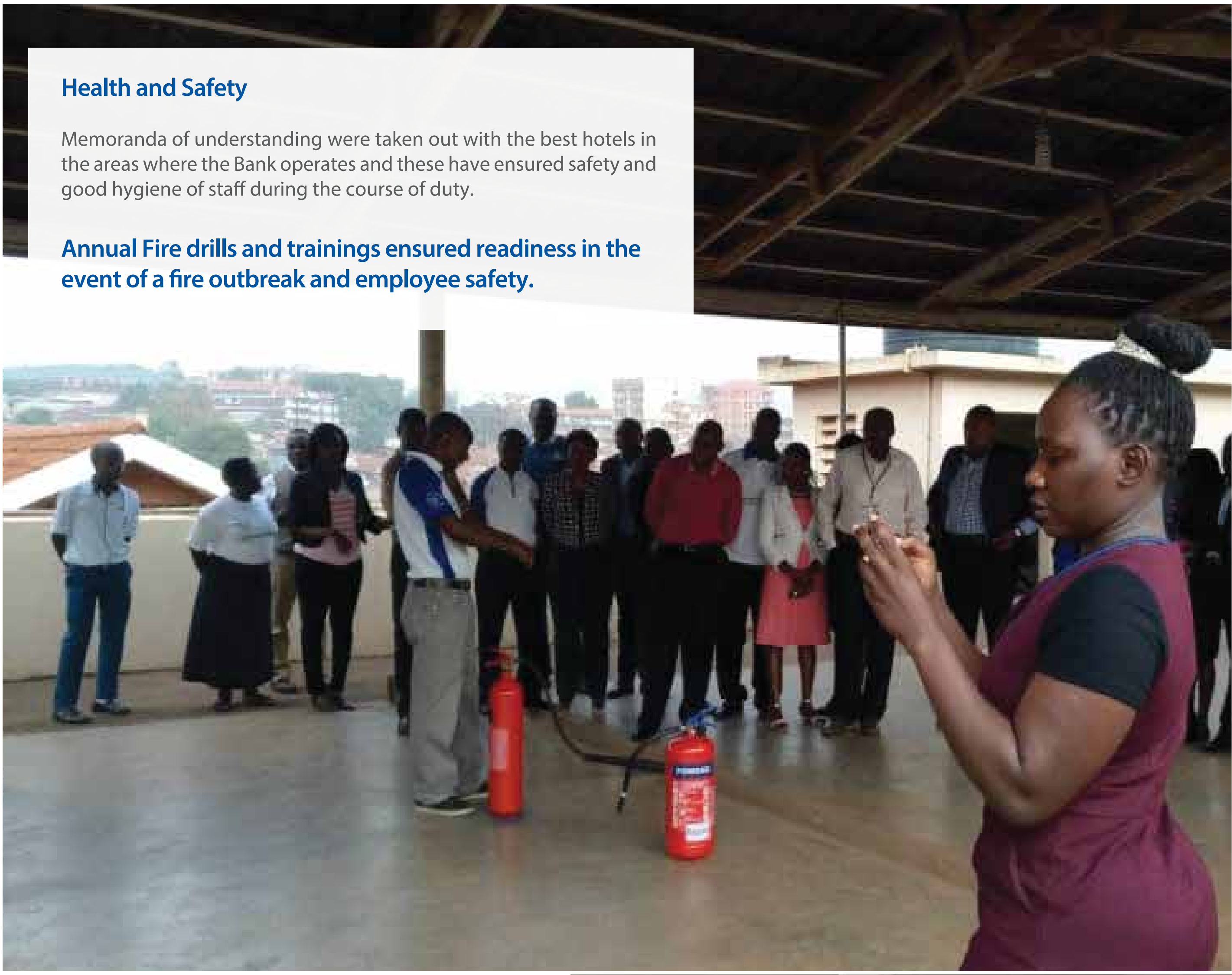
In order to ensure sustainable organization performance, the Bank conducted Skills development programs and engagement activities.

Continuous Employee Engagement

Staff engagement surveys ensured feedback on pertinent issues from the staff and these informed the development of the annual corporate wellness program of the Bank.

A series of Initiatives such as monthly prayers, quarterly medical camps, financial clinics were undertaken to promote a conducive working environment that motivated staff to give their best and achieve organizational success.

The annual Bankers sports gala 2018 attracted energetic and talented staff to showcase talent.



Health and Safety

Memoranda of understanding were taken out with the best hotels in the areas where the Bank operates and these have ensured safety and good hygiene of staff during the course of duty.

Annual Fire drills and trainings ensured readiness in the event of a fire outbreak and employee safety.

Learning and Development

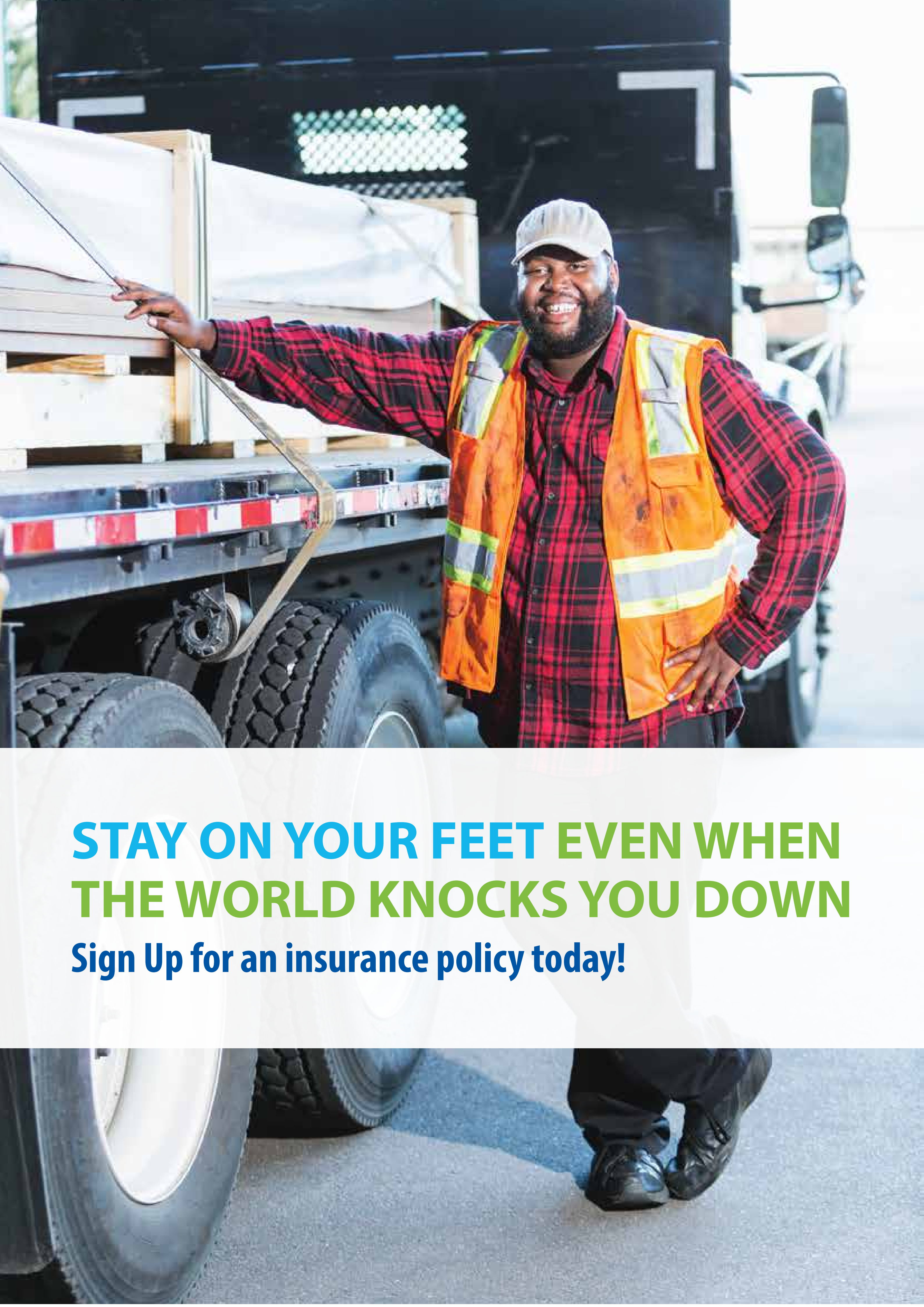
To facilitate learning, trainings were conducted for staff from the date of joining and culminated into on-job training. A mentorship program ensured transfer of knowledge and skills and continuity of work. Succession planning involved training of staff in all roles to promote uninterrupted business continuity.

Internal trainers conducted in house training of peers, and rolling out the succession planning initiatives. These, together with the performance improvement programs, class room trainings, on job trainings, field visits provided a stable foundation on which the staff maximized their potential.

People Risk

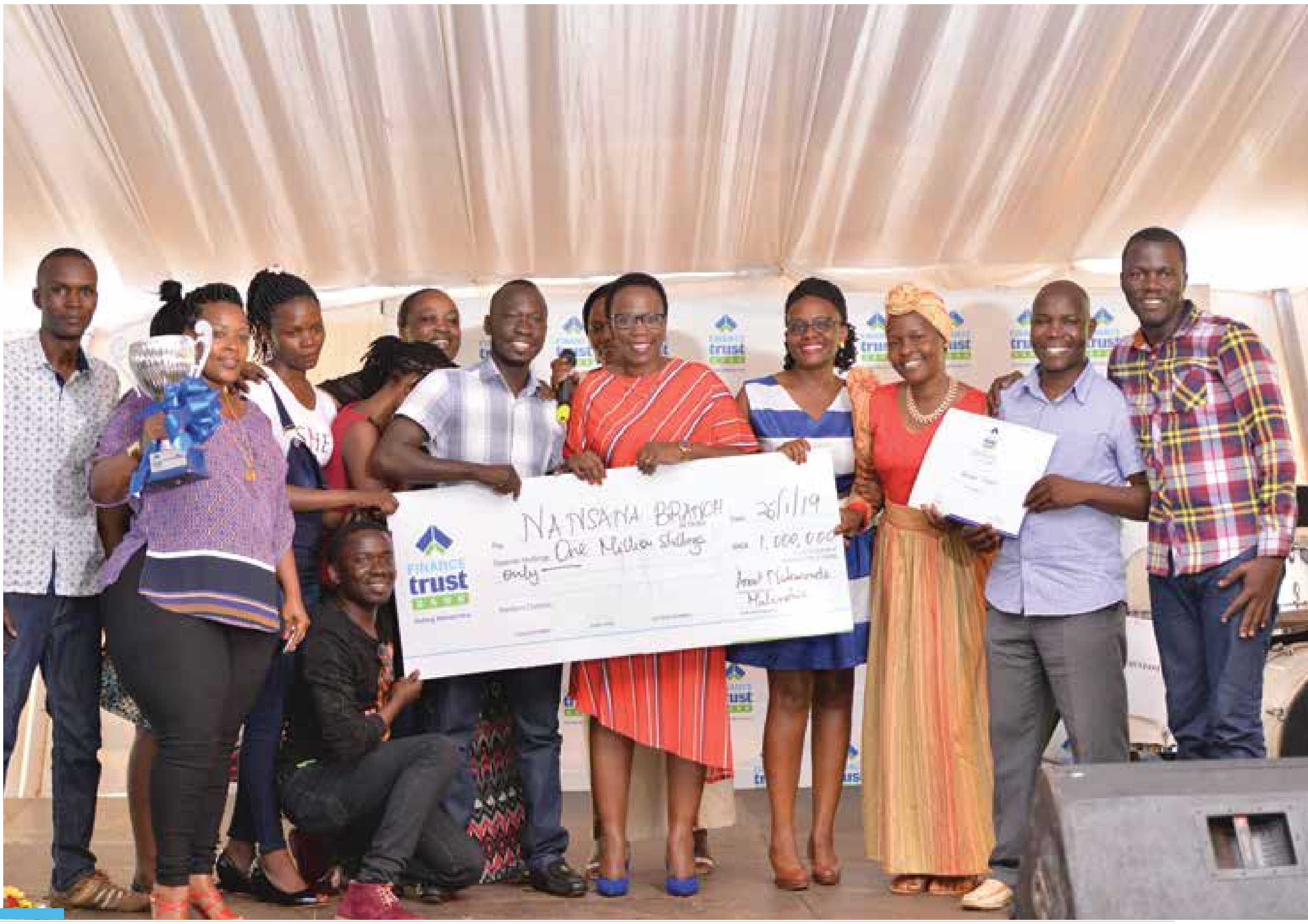
Managing employee risk was enforced through adherence to the employment laws in employee contracts, Continuous communications with the staff on outlying dangers, implementing a rigorous disciplinary regime and ensuring health and safety for all staff.

A comprehensive pre-employment medical scheme ensured onboarding healthy and able employees. The bank continued to employee a well guided risk management approach on people management.


STAY ON YOUR FEET EVEN WHEN THE WORLD KNOCKS YOU DOWN
Sign Up for an insurance policy today!

Reward and Recognition

Best performance is rewarded by Board and Management occasionally



End of year staff party

At the end of year, we celebrated the milestone of attaining **UGX 5.85Billion** profits

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FINANCIAL HIGHLIGHTS

The bank registered considerable growth across all the key financial metrics.
Below are some of the key financial highlights for the year ended 31st December 2018.

HIGHLIGHTS FOR THE YEAR 2018

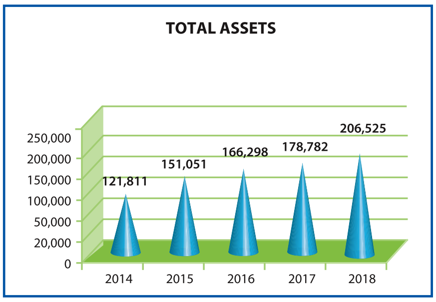
Total assets grew by
16%
from
178.78bn to shs
206.53bn

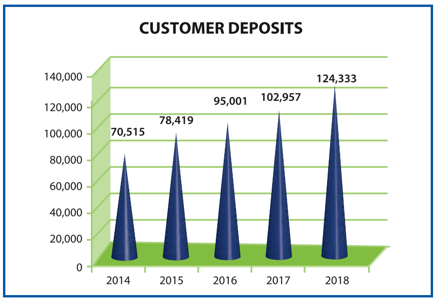
Net loans and advances increased by
11%
from
110.42bn to shs
122.70n

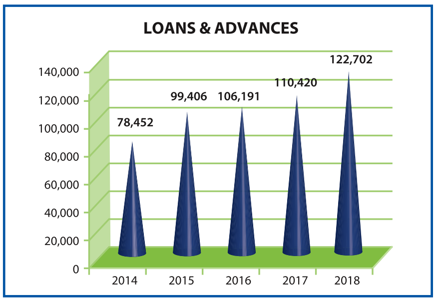
Deposits grew by
21%
from
102.96bn to shs
124.33bn

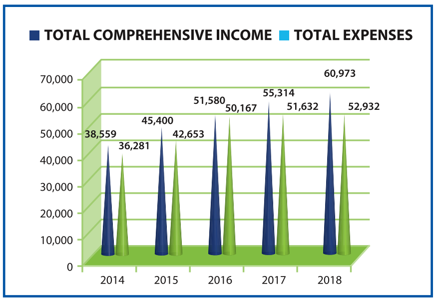
Shareholders' equity went up by
11%
from
37.72bn to shs
41.89bn

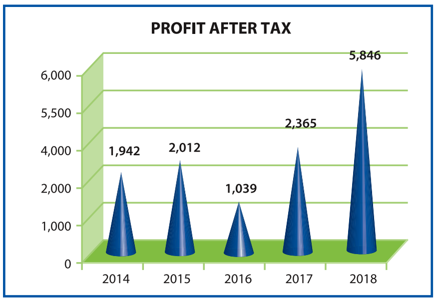
After tax profits grew by
147%
from
2.37bn to shs
5.85bn

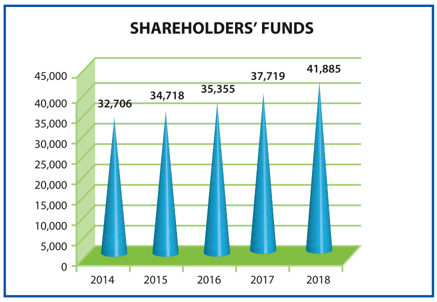












Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of Finance Trust Bank Limited ("the Bank").

Principal activities

The Bank is engaged in the business of banking and the provision of related services as licensed to do so under the Financial Institutions Act.

Results and Dividend

The profit for the year of Shs 5,849 million (2017: Shs 2,374 million) has been taken to retained earnings. The directors recommend payment of dividends of Shs 1,755 million for the year ended 31 December 2018 (2017: Shs 709 Million).

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	
Mr. Dennis Kakeeto	Executive Director	– Resigned 28 Feb 2018
Mrs. Annette Kiggundu Nansubuga	Executive Director	– Appointed 1 March 2018
Mrs. Grace Namulinda Aliakai	Non-Executive Director	
Mr. Kirunda Robert	Non-Executive Director	
Mrs. Mary Oduka Achan	Non-Executive Director	
Mr. Jean-Louis de Montesquiou	Non-Executive Director	
Mr. Tor G. Gull	Non-Executive Director	
Mr. Loic De Cannie're	Non-Executive Director	
Mrs. Lydia Koros	Non-Executive Director	
Mr. Jeremy Hadjdenberg	Non-Executive Director	– Alternate to Mr. Jean-Louis de Montesquiou
Mr. David Ssenoga	Non-Executive Director	– Alternate to Mr. Tor G. Gull
Mr. Andrej Machacek	Non-Executive Director	– Alternate to Mrs. Lydia Koros
Dr. Mr. Albert Richard Otete	Non-Executive Director	
Mrs. Patricia Asiimwe Kahiigi	Non-Executive Director	– Alternate to Mrs. Mary Achan Oduka Ochan

Auditor

The Bank's auditor, PricewaterhouseCoopers Certified Public Accountants is not eligible for reappointment in accordance with the provisions of Section 167(2) of the Ugandan Companies Act and Section 62 (3) of the Financial Institutions Act.

By order of the Board

Secretary
16 April 2019

Statement of Director's Responsibilities

The Ugandan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act and the Financial Institutions Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit in accordance with International Financial Reporting Standards and have been prepared in the manner required by the Ugandan Companies Act and the Financial Institutions Act. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements 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 have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Chairperson Board of Directors	Director	Managing Director
16 April 2019		

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With our wide selection of products and services ranging from savings accounts for individuals and groups, Investment clubs, SACCOs, Current accounts, Business loans, Consumer loans and Trust mobile loans.

We are confidently serving generations.

Report of the independent auditor to the members of Finance Trust Bank Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Finance Trust Bank Limited (''the Bank'') as at 31 December 2018, and of its profit and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been prepared in the manner required by the Ugandan Companies Act and the financial Institutions Act.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 *auditor's responsibilities* for the audit of the financial statements section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

The key audit matter described below is that which, in our professional judgment, was of most significance in our audit of the financial statements of the Bank for the year ended 31 December 2018. This matter was 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 the matter.

Key audit matter- Assessment of the Bank's loans and advances for impairment	How our audit addressed the key audit matter
The Bank implemented IFRS 9 – Financial Instruments (IFRS 9) on 1 January 2018. This new standard, which is applicable to management's assessment of the Bank's loans and advances for impairment, requires the Bank to recognise expected credit losses ('ECL') on financial instruments. The Bank's implementation of IFRS 9 resulted in the Bank's recognition of credit loss provisions of Shs 3,356 million (2017: Shs 2,181 million). Because management made significant judgments and used estimates in the loans and advances impairment assessment process, we considered it (the impairment assessment process) to be a key audit matter. The key areas where management applied significant judgement and used estimates are: • the derivation of the key elements in the Bank's IFRS 9 impairment model specifically the Probability of Default ('PD'), Loss Given Default ('LGD'), and Exposure At Default ('EAD'). The Bank applied these elements to two loan portfolio segments – the Micro loans and SME loan – that management identified as being relevant in the loans and advances impairment assessment process. • selecting macroeconomic assumptions that best represent the range of future economic conditions that could impact the ECLs on the Bank's loans and advances. the assessment of whether credit risk on the Bank's loans and advances increased (or decreased) significantly since initial recognition.	Set out below is a summary of the audit procedures that we performed: We evaluated the appropriateness of the Bank's IFRS 9 impairment methodologies and independently assessed the reasonableness of the PDs, LGDs and EADs for its loans and advances. For a sample of loans, we recomputed these variables and compared them against the actual results. We performed substantive procedures over the completeness and accuracy of key inputs and assumptions into the Bank's IFRS 9 impairment model. Our procedures also involved: • Testing the appropriateness of the segmentation of the Bank's loans and advances; i • Tracing a sample of inputs used in determining the PDs, LGDs and ECL to source data; and • Re - performing key aspects of the Bank's determination of Significant Increase in Credit Risk (SICR). We assessed the appropriateness of the Bank's IFRS 9 disclosures in its financial statements particularly the following: the key judgements and assumptions applied in determining the expected credit losses; and the uncertainty in determining expected credit losses.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act and the Financial Institutions Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

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

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

Report on other legal and regulatory requirements

The Ugandan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm 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 our 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; and

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

The engagement partner on the audit resulting in this independent auditor's report is CPA Cedric Mpobusingye – P0213.

PricewaterhouseCoopers.

Certified Public Accountants
Kampala 18 April 2019

CPA Cedric Mpobusingye

Statement of Comprehensive Income

	Notes	2018 Shs 000	2017 Shs 000
Interest income	5	**40,023,635**	35,394,513
Interest expense	6	**(8,263,179)**	(8,626,940)
Net interest income		**31,760,456**	26,767,573
Impairment losses on financial assets	17 (b)	**(2,479,907)**	(3,909,047)
Net interest income after loan impairment charges		**29,280,549**	22,858,526
Fees and commission income	7	**19,146,340**	17,931,425
Net foreign exchange gains	8	**120,368**	125,120
Other operating income	9	**1,682,966**	1,863,377
Operating expenses	10	**(42,189,369)**	(39,096,170)
Profit before income tax		**8,040,854**	3,682,278
Income tax expense	12	**(2,192,317)**	(1,307,810)
Profit for the year		**5,848,537**	2,374,468
Other comprehensive income	33	**(2,217)**	(9,765)
Total comprehensive income for the year		**5,846,320**	2,364,703
Earnings per share - basic and diluted (Shs per share)	30	**0.210**	0.085

Statement of Financial Position

	Notes	2018 Shs 000	2017 Shs 000
ASSETS			
Cash and balances with Bank of Uganda	13	26,099,304	22,283,658
Deposits and placements with other Banks	14	15,813,745	9,726,755
Government securities	15	24,318,835	16,043,949
Loans and advances to customers	17	122,702,419	110,419,750
Other assets	16	4,788,937	6,778,164
Current income tax recoverable	12	150,973	121,114
Property and equipment	18	8,662,507	9,144,514
Operating lease prepayments	19	1,252,605	1,155,119
Intangible assets	20	2,735,821	3,109,304
Total assets		206,525,146	178,782,327
EQUITY AND LIABILITIES			
Liabilities			
Customer deposits	21	124,333,205	102,956,503
Deposits and balances due to other banking institutions	22	15,391,303	4,365,100
Borrowings	23	15,405,937	23,316,087
Finance leases	26	421,217	67,311
Current tax payable	25	562,011	-
Deferred tax Liability	24	8,526,283	643,275
Other liabilities			9,714,617
Total liabilities		164,639,956	141,062,893
Equity			
Share capital	27	27,785,402	27,785,402
Regulatory credit risk reserve	17 (c)	103,311	1,097,788
Retained earnings		12,232,395	8,124,360
Available for sale revaluation reserve		-	2,217
Proposed dividends		1,754,560	709,411
Dividend Payable		9,522	256
Total equity		41,885,190	37,719,434
Total equity and liabilities		206,525,146	178,782,327

The financial statements on pages 50 to 91 were approved by the Board of Directors on 29 March 2019, discussed with Bank of Uganda on 9 April 2019 and signed on behalf of the Board of Directors on 16 April 2019 by:

Chairperson Board of Directors
16 April 2019

Director

Managing Director

Secretary

Statement of Changes in Equity

	Notes	Share capital Shs 000	Regulatory reserve Shs 000	Retained earnings Shs 000	Proposed dividends Shs 000	Available for sale fair value reserve Shs 000	Total Shs 000
Year ended 31 December 2017							
At 1 January 2017		**27,785,402**	**1,228,953**	**6,328,138**	**256**	**11,982**	**35,354,731**
Comprehensive income:							
Profit for the year		-	-	2,374,468	-	-	2,374,468
Other comprehensive income		-	-	-	-	(9,765)	(9,765)
Total comprehensive income		-	-	2,374,468	-	(9,765)	2,364,703
Transactions with owners:							
Transfer from regulatory reserve		-	(131,165)	131,165	-	-	-
Dividends paid	34	-	-	(709,411)	709,411	-	-
At 31 December 2017	**27**	**27,785,402**	**1,097,788**	**8,124,360**	**709,667**	**2,217**	**37,719,434**
Year ended 31 December 2018							
At 1 January	**27**	**27,785,402**	**1,097,788**	**8,124,360**	**709,667**	**2,217**	**37,719,434**
Impairment charge on initial application of IFRS 9	**2(a)**			**(948,093)**			**(948,093)**
Restated balance at 1 January 2018	**27**	**27,785,402**	**1,097,788**	**7,176,267**	**709,667**	**2,217**	**36,771,342**
Comprehensive income:							
Profit for the year		-	-	5,848,537	-	-	5,848,537
Unwinding FVOCI reserve		-	-	(2,217)	-	(2,217)	
Total comprehensive income		-	-	5,850,754	-	(2,217)	5,848,537
Transactions with owners:							
Transfer from regulatory reserve		-	(994,477)	994,477	-	-	-
Cost of exit transaction	35			(34,543)			(34,543)
Dividends paid					(700,145)		(700,145)
Dividends proposed	34	-	-	(1,754,560)	1,754,560	-	
At 31 December 2018	**27**	**27,785,402**	**103,311**	**12,232,395**	**1,764,082**	**-**	**41,885,190**

Statement of Cashflows

	Notes	2018 Shs 000	2017 Shs 000
Cash flows from operating activities			
Interest receipts		**39,461,413**	35,271,309
Interest payments		**(8,097,351)**	(8,626,940)
Net fee and commission receipts		**19,117,987**	17,931,425
Other income received		**341,607**	746,292
Recoveries from loans previously written off	9	**1,211,061**	978,965
Payments to employees and suppliers		**(40,141,115)**	(39,096,170)
Income tax paid	12	**(2,253,834)**	(357,662)
Cash flows from operating activities before changes in operating assets and liabilities		**9,639,768**	6,847,219
Changes in operating assets and liabilities:			
- loans and advances	17	**(12,282,669)**	(4,276,688)
- other assets	16	**1,989,227**	(479,338)
- Operating lease prepayments	19	**(97,486)**	23,330
- customer deposits	21	**21,376,702**	7,954,937
- deposits due to other banks	22	**11,026,203**	(3,880,099)
- other liabilities	24	**(1,188,334)**	1,826,937
- government securities maturing beyond 90 days	15	**(15,140,956)**	7,407,168
Net cash generated from operating activities		**15,322,455**	15,423,466
Cash flows from investing activities			
Increase in placements with other banks	14	**(9,947,883)**	3,554,856
Purchase of property and equipment	18	**(2,052,709)**	(2,207,287)
Purchase of intangible assets	20	**(143,652)**	(51,555)
Proceeds from sale of property and equipment		**16,236**	91,339
Net cash utilized in investing activities		**(12,128,008)**	1,387,353
Cash flows from financing activities			
Proceeds/(Repayment) of borrowings	23	**(7,910,149)**	3,427,201
Change in designated funds	24	**(387,790)**	70,343
Change in capital grants	24	**(120,544)**	(199,424)
Dividends paid to shareholders		**(700,145)**	-
Net cash utilized from financing activities		**(9,118,628)**	3,298,120
Net increase/ (decrease) in cash and cash equivalents		**(5,924,181)**	20,108,939
Cash and cash equivalents at start of year	29	**44,479,157**	24,370,218
Cash and cash equivalents at end of year		**38,554,976**	44,479,157

Notes

1. General information

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

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

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

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation
The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.
The financial statements are presented in Uganda Shillings, rounded to the nearest thousand (Shs 000).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank:

IFRS 9- Financial Instruments

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018. The adoption of IFRS 9 has resulted in changes in the Bank's accounting policies and adjustments to the amounts previously recognised in the Bank's financial statements. The Bank did not early adopt any aspect of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for disclosures in the notes to the financial statements, the consequential amendments to IFRS 7 disclosures have been applied to the current period. The disclosures in the notes for the comparative period repeat those disclosures made in the prior year. The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities, and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank.

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 31 December 2017:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and balances with Bank of Uganda	Loans and receivables	Amortised cost	22,283,658	22,283,658
Deposits due from commercial Banks in Uganda	Loans and receivables	Amortised cost	9,726,755	9,726,755
Investment securities	Available for sale	Amortised cost	5,491,938	5,491,938
Investment securities	Held to maturity	Amortised cost	10,552,011	10,552,011
Loans and advances	Loans and receivables	Amortised cost	110,419,750	110,419,750
Other assets	Loans and receivables	Amortised cost	4,223,336	4,223,336
Total financial assets			**162,697,448**	**162,697,448**
Financial liabilities				
Customer deposits	Other liabilities	Amortised cost	102,956,503	102,956,503
Total financial liabilities			**102,956,503**	**102,956,503**

The application of the Bank's policies in line with IFRS 9 resulted in reclassification of financial assets and financial liabilities between categories as shown above.

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount	Reclassifications	Remeasurements	IFRS 9 carrying amount
Amortised cost	31-Dec-17			1-Jan-18
Cash and balances with Bank of Uganda				
Opening balance under IAS 39 and closing balance under IFRS 9	22,283,658	-	-	22,283,658
Cash and balances with other Banks				
Opening balance under IAS 39	9,726,755			
ECL allowance		-	-	9,726,755
Closing balance under IFRS 9				
Loans and advances				
Opening balance under IAS 39	110,419,750	-	-	110,419,750
ECL allowance				
Closing balance under IFRS 9				
Investment securities				
Opening balance under IAS 39				
ECL allowance	10,552,011			
Addition: From AFS (IAS 39)		5,491,938		
Closing balance under IFRS 9				16,043,949
Available for sale (AFS)				
Investment securities — AFS				
Opening balance under IAS 39	5,491,938			-
Reclassification to amortised cost		(5,491,938)		
Closing balance under IFRS 9	**158,474,112**		-	**158,474,112**

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

Measurement category	Loan loss allowance under IAS 39	Reclassification	Remeasurements	Loan loss allowance under IFRS 9
Loans and receivables (IAS 39)/ Financial assets at amortized cost (IFRS 9)				
Cash and balances with banks	-	-	14,424	14,424
Loans and advances	2,181,217	-	896,903	3,078,120
Investment securities	-	-	22,652	22,652
Total	**2,181,217**	-	**933,979**	**3,115,196**
Loan commitments and financial guarantee contracts				
Unused loan commitments	-	-	14,114	14,114
Total	**2,181,217**	-	**948,093**	**3,129,310**

To reflect the effect of IFRS 9 at start of the accounting period to December 2018, a total adjustment of Shs 948 million has been applied to the respective opening balances and accordingly adjusted for through retained earnings for the year 2018.

Hedge accounting

The new hedge accounting requirements aim to simplify hedge accounting, align accounting with the Bank's risk management strategy and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. However, because the IASB is still addressing the accounting of macro hedging activities through a separate project, IFRS 9 includes an accounting policy choice to continue accounting for hedge accounting under IAS 39 until the macro-hedging project is finalised. The Bank will elect the accounting policy choice to continue to apply hedge accounting under IAS 39. At 31 December 2018, the Bank did not have any financial instruments that qualify for hedge accounting.

The following standards and interpretations applied for the first time to the Bank and did not have a significant impact:

• Classification and measurement of share-based payment transactions – amendments to IFRS 2;

• Transfers of investment property – amendments to IAS 40; and

• Interpretation 22 foreign currency transactions and advance consideration.

(a) IFRS 16, 'Leases'

Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied. (Published January 2016).

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

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The Bank has determined that lease contracts will arise on all rental agreements for its office premises. Accordingly, the bank will derive lease obligations over the balances of lives arising on all rental agreements in force across its branch network. The Bank (as a lessee) will apply the modified retrospective approach in the implementation of the requirements of the new lease standard with 01 January 2019 as the date of initial application.

IFRS 17, 'Insurance contracts'

Annual periods beginning on or after 1 January 2021

Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (Published May 2017). The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

IFRIC 23, 'Uncertainty over income tax treatments'

Annual periods beginning on or after 1 January 2019 (Published 7 June 2017).

IFRIC 23 provides a framework to consider, recognise, and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

(b) Foreign currency translation

(i) 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.

(iI)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 FVOCI financial assets, are included in the FVOCI reserve in equity.

(c) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held to sell or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' respectively in the Statement of comprehensive income using the effective interest method.

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

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

(d) 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.

(e) Financial assets and liabilities

(i) Classification and measurement of financial instruments

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

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

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

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Fair Value through Other Comprehensive Income (FVOCI)
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 2018, 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 FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

As at 31 December 2018, the Bank did not have any financial assets classified at FVTPL.

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

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

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

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

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

In making the assessment, the Bank has considered;

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

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

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

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

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

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

- Held to Collect: The objective in this business model is to manage the financial assets by holding them and collecting the underlying contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling the assets). In addition to this, the business considers the frequency, volume and timing of sales in prior periods, the reasons for such sales and the expectations about future sales activity.

- Held to Collect and Sell: The Bank may also hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets 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 derecognition
A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

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

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, 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 derecognition, 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 derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. 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 derecognition, the Bank will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

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

Write-off

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

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

Interest income recognition

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

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

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

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

Assets that are credit-impaired on initial recognition

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

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

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

Measurement on initial recognition

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

Subsequent measurement

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

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

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

- financial assets that are debt instruments: This applies to the Bank's loans and advances to customers, Investment in Government securities measured FVOCI, balances due from other Banks, balances due from group companies and other assets;

- lease and trade receivables – this applies to the Bank's finance lease and trade receivables; and

- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets): This applies to the Bank's off balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

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

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

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

• debt investment securities that are determined to have low credit risk at the reporting date. The Bank will consider a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and

• other financial instruments (other than trade and lease receivables) for which credit risk has not increased significantly since initial recognition.

• Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs.

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

• assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

• incorporating forward-looking information into the measurement of ECLs.

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

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

• financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

• undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

• financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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

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

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

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

- The general approach
- The simplified approach

The General Approach

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

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

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

ECL12m = PD12m x LGD12m x EAD12m
Stage 2: For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime (LT) ECLs, i.e., ECLs that result from all possible default events over the expected life of a financial instrument (ECL LT as per formula below).

ECL LT = LT∑T=1 PDt x LGDt x EADt
Stage 3: For credit exposures that are credit impaired and in default. Similar to stage 2 assets a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate.

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

• When the obligor is past due more than 89 days for the portfolios that are classed as small and medium enterprise facilities & 29 days for the portfolio segment that is classed as micro; and

• When the Bank considers that the obligor is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if held), collecting against a guarantee or other form of support, or filing a claim against an insurer.

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

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

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

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

The Bank qualitatively determines default, when the Bank considers that the obligor is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if held), collecting against a guarantee or other form of support, or filing a claim against an insurer.

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

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

Probability of default (PD)

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

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

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

Bank's internal ratings scale:

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

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

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

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

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

Historical data collected from the Bank's internal database spanning the period 2014 to 2018 has been used to determine the LGD. The data has been segmented by product to capture the unique characteristics of each segment.

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

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

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

1) Specific provision for the loans and advances considered non performing (impaired) based on the criteria, and classification of such loans and advances established by the Financial Institutions Act, as follows:

a) Substandard loans with arrears period from 90 to 179 days – 20%
b) Doubtful loans and advances with arrears period from 180 to 364 days – 50%; and
c) Loss with arrears period exceeding 364 days – 100% provision

2) General provision of 1% of credit facilities less provisions and suspended interest. .
In the event that provisions computed in accordance with the Financial Institutions Act exceed provisions determined in accordance with IFRS, the excess is accounted for as an appropriation of retained earnings. Otherwise no further accounting entries are made

(iii) Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

As at 31 December 2018, the Bank did not have any financial assets measured at fair value.

(f) 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.

(g) 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.

(h) Sale and repurchase agreements

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

(i) Impairment of non-financial assets

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

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

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.

(j) Property and equipment

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

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

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

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

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

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

The Bank assesses at each balance sheet date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

(k) 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).

(l) 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.

(m) 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.

(n) Employee benefits

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

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

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

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

(o) Customer deposits

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

(p) 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.

(q) 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.

(r) 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.

(s) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

(i) With the Bank as lessee
To date, all leases entered into by the Bank are operating leases. Payments made under operating leases are charged to the Statement of comprehensive income on a straight-line basis over the period of the lease.

(ii) With the Bank as lessor
Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the Statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

To date, the Bank has not leased out any assets as lessor.

(t) Acceptances and letters of credit

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

(u) 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.

3 Critical accounting estimates and judgements in applying accounting policies

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

(a) Deferred income tax asset/liability

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

In 2018, the Bank recognised deferred tax liability of Shs 755 million in respect of temporary differences arising out of variations in the carrying amounts of depreciable assets and their tax bases. The temporary differences harmonize either at full utilization or disposal of the subject assets.

(b) Measurement of expected credit loss allowance

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

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

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

The expected credit loss allowance on loans and advances are disclosed in more detail in Notes 17.

4 Financial risk management

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

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

(a) Credit risk

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

(i) Credit risk measurement

Loans and advances (including commitments and guarantees)

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

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

Probability of default
The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into four rating classes.

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

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

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

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

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

Some other specific control and mitigation measures are outlined below:

(a) 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.

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

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

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

Credit risk exposures relating to on-balance sheet assets:	2018 Shs 000	2017 Shs 000
Placements with other banks (Note 14)	**15,813,745**	9,726,755
Loans and advances to customers (Note 17)	**122,702,419**	110,419,750
Government securities (Note 15)	**24,318,835**	16,043,949
Other assets (Note 16)	**4,788,937**	6,778,164
	167,623,936	142,968,618
Credit risk exposures relating to off-balance sheet items:		
Guarantee and performance bonds	**41,500**	938,715
Commitments to lend	**921,478**	812,368
Total exposure	**168,586,914**	144,719,701

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018, 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, 72.8% of the total maximum exposure is derived from loans and advances to customers and 14.4% represents investments in debt securities.

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

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

- the Bank exercises stringent controls over the granting of new loans;
- 90% of the loans and advances portfolio are neither past due nor impaired; and
- 9% of the loans and advances portfolio is past due but not impaired.

(iv) Loans and advances

	2018 Shs 000	2017 Shs 000
Neither past due nor impaired	**118,335,955**	100,723,917
Past due but not impaired	**3,920,125**	9,870,398
Impaired	**3,801,988**	2,006,652
Gross	**126,058,068**	112,600,967
Less: allowance for impairment (Note 17)	**(3,355,649)**	(2,181,217)
Net amount	**122,702,419**	110,419,750

Impairment of Loans and advances

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

	2018 Shs 000	2017 Shs 000
Stage 1	**118,335,955**	103,872,695
Stage 2	**3,920,125**	4,649,429
Stage 3	**3,801,988**	4,078,843
	126,058,068	112,600,967

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans.

Repossessed collateral

During 2018, 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. The Bank of Uganda requires that the Bank maintains a minimum cash reserve ratio. 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. Sources of liquidity are regularly reviewed by a separate team in the Treasury department to maintain a wide diversification by provider, product and term.

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

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

At 31 December 2018	Up to 1 month Shs 000	1-3 months Shs 000	3-12 months Shs 000	1-5 years Shs 000	Over 5 years Shs 000	Total Shs 000
Liabilities and Equity						
Customer deposits	6,688,857	7,644,408	28,666,529	81,333,411	-	**124,333,205**
Deposits and balances due to banking institutions	3,039,871	879,220	11,471,654	558	-	**15,391,303**
Borrowed funds	184,170	1,152,657	5,233,557	8,835,554	-	**15,405,937**
Finance leases	5,035	31,515	143,092	241,575	-	**421,217**
Current tax payable	-	-	-	-	-	-
Deferred tax Liability	-	-	-	562,011	-	**562,011**
Other liabilities	-	-	-	8,526,283	-	**8,526,283**
Equity	-	-	-	-	41,885,190	**41,885,190**
Total liabilities	**9,917,933**	**9,707,800**	**45,514,832**	**99,499,391**	**41,885,190**	**206,525,146**
Assets						
Cash and balances with Bank of Uganda	26,099,304		-		-	**26,099,304**
Placements & Deposits with other banks	8,349,013	2,019,658	5,445,074	-	-	**15,813,745**
Government securities	3,955,032	6,095,384	10,106,971	4,161,448	-	**24,318,835**
Loans and advances to customers	8,786,082	7,500,504	34,788,340	71,627,493	-	**122,702,419**
Other assets	-	-	-	4,788,937	-	**4,788,937**
Current income tax recoverable	-	-	-	150,973	-	**150,973**
Property and equipment	-	-	-	8,662,507	-	**8,662,507**
Operating lease prepayments	-	-	-	1,252,605	-	**1,252,605**
Intangible assets	-	-	-	2,735,821	-	**2,735,821**
					-	
Total assets	**47,189,431**	**15,615,546**	**50,340,385**	**93,379,784**	-	**206,525,146**
Off Balance Sheet Items						
Guarantee and performance bonds	6,500	-	10,000	22,000	3,000	**41,500**
Commitments to lend	921,478	-	-	-	-	**921,478**
Net liquidity gap						
As at 31 December 2018	**38,199,476**	**5,907,746**	**4,835,553**	**(6,097,607)**	**(41,882,190)**	
At 31 December 2017	**36,647,780**	**1,025,042**	**6,915,081**	**(8,619,552)**	**(37,719,434)**	

(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 2018 and 2017. During the reporting period, the Bank only traded in USD and the financial instruments held as at 31 December 2018 and 2017 are included in the table below.

At 31 December 2018	USD Shs 000	Total Shs 000
Assets		
Cash and balances with Central Bank	1,487,520	1,487,520
Deposits and balances due from other banking institutions	262,045	262,045
Loans and advances	-	-
Other financial assets	-	-
Total assets	**1,749,565**	**1,749,565**
Liabilities		
Customer deposits	**436,511**	**436,511**
Deposits and balances due to banking institutions	-	-
Other financial liabilities	-	-
Total liabilities	**436,511**	**436,511**
Net on-balance sheet position	**1,313,054**	**1,313,054**
Net off-balance sheet position	-	-
Overall open position	**1,313,054**	**1,313,054**
At 31 December 2017	854,427	854,427

At 31 December 2018, if the functional currency had strengthened/weakened by 10% against the foreign currencies with all other variables held constant, the pre-tax profit/loss for the year would have been Shs 131.3million (2017: Shs 102.9 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities.

Interest rate risk

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

Gap Analysis

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

In order to evaluate the earnings exposure, interest Rate Sensitive Assets (RSA) in each time band are netted off against the interest Rate Sensitive Liabilities (RSL) to produce a repricing gap for that time band. A positive gap indicates that the Bank has more RSA and 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 2018, 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 3.15 billion (2017: Shs 2.68 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 2017	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Bank of Uganda	-	-	-	-	26,099,304	26,099,304
Placements & Deposits with other banks	6,055,099	2,019,658	5,445,074	-	2,293,914	15,813,745
Government securities	3,955,032	6,095,384	10,106,971	4,161,448	-	24,318,835
Loans and advances to customers	8,786,082	7,500,504	34,788,340	71,627,493	-	122,702,419
Other assets	-	-	-	-	4,788,937	4,788,937
Current income tax recoverable	-	-	-	-	150,973	150,973
Property and equipment	-	-	-	-	8,662,507	8,662,507
Operating lease prepayments	-	-	-	-	1,252,605	1,252,605
Intangible assets	-	-	-	-	2,735,821	2,735,821
	-	-	-	-		
Total assets	**18,796,213**	**15,615,546**	**50,340,385**	**75,788,941**	**45,984,061**	**206,525,146**
Liabilities						
Customer deposits	5,349,629	6,113,862	22,926,981	65,049,020	24,893,713	124,333,205
Deposits and balances due to other banking institutions	2,119,337	1,537,602	11,701,449	32,915	-	15,391,303
Borrowings	184,170	1,152,657	5,233,557	8,835,553	-	15,405,937
Finance Leases	5,035	31,515	143,092	241,575	-	421,217
Deferred tax Liability		-	-	-	-	-
Other Liabilities		-	-	-	562,011	562,011
Equity		-	-		8,526,283	8,526,283
					41,885,190	41,885,190
Total Equity and Liabilities	**7,658,171**	**8,835,636**	**40,005,079**	**74,159,063**	**75,867,197**	**206,525,146**
Interest re-pricing gap As at 31 December 2018	**11,138,042**	**6,779,910**	**10,335,306**	**1,629,878**		
At 31 December 2017	**17,109,890**	**4,206,808**	**2,173,099**	**(8,678,717)**		

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 2018	Amortised cost	Total Shs 000
Assets as per balance sheet		
Cash and Balances with Bank of Uganda	26,099,304	26,099,304
Balances & Placements with other banks	15,813,745	15,813,745
Loans and advances to customers	122,702,419	122,702,419
Investment securities:	24,318,835	24,318,835
Total	**188,934,303**	**188,934,303**

31 December 2017	Loans and Receivables Shs 000	Available-for-sale Shs 000	Total Shs 000
Assets as per balance sheet			
Cash and Balances with Bank of Uganda	22,283,658	-	22,283,658
Balances & Placements with other banks	9,726,755	-	9,726,755
Loans and advances to customers	110,419,750	-	110,419,750
Investment securities:			
– Held to Maturity	-	10,552,011	10,552,011
– Available for Sale	-	5,491,938	5,491,938
Total	**142,430,163**	**16,043,949**	**158,474,112**

	2018 Shs 000	2017 Shs 000
Liabilities as per balance sheet – at amortised cost		
Customer deposits	**124,333,205**	102,956,503
Deposits from other banks	**15,391,303**	4,365,100
Other liabilities	**8,526,283**	9,714,617
Borrowings	**15,405,938**	23,316,087
Finance Leases	**421,217**	67,311
Total	164,077,946	**140,419,618**

(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 set by the Central Bank;
• to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and
  benefits for other stakeholders;
• to maintain a strong capital base to support the development of its business.

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

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

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

Tier 1 capital (core capital) which upon applying the provisions of the Financial Institutions (Capital Adequacy Requirement) Regulation 2005, comprise Permanent Shareholders' Equity (issued and fully paid-up common shares and irredeemable, non-cumulative preference shares), share premium, prior years' retained profits, Net after-tax profits current year-to-date (50% only) and general reserves (permanent, unencumbered and able to absorb losses) less deductions of goodwill and other intangible assets, current year's losses, investments in unconsolidated financial subsidiaries, deficiencies in provisions for losses, prohibited loans to insiders and other deductions determined by Central Bank.

Tier 2 capital (supplementary capital) which upon applying the provisions of the Financial Institutions (Capital Adequacy Requirement) Regulation 2005, comprise revaluation reserves on fixed assets, unencumbered general provisions for losses, subordinated debt and Hybrid capital instruments.

The Bank monitors the adequacy of its capital using the above ratios of core capital and total capital as set out in the Financial Institutions Act. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets and off-balance-sheet commitments at a weighted amount to reflect their relative risk.

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December 2017 determined in accordance with the Financial Institutions Act:

	2018 Shs 000	2017 Shs 000
Core capital (Tier 1)		
Shareholder's equity	**27,785,402**	27,785,402
Retained earnings	**12,231,729**	8,124,360
Intangible assets	**(2,735,821)**	(3,109,304)
Deferred income tax asset	-	
Unrealized foreign exchange gains	-	(3,062)
Total core capital	**37,281,310**	32,797,396
Supplementary capital (Tier 2)		
General provisions (FIA)	**1,232,011**	1,099,345
Tier 2 capital	**1,232,011**	1,099,345
Total capital (Tier 1 and Tier 2)	**38,513,321**	33,896,741

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 2018:

	Balance sheet amount		Risk weight %	Risk weighted amount	
	2018 Shs'000	2017 Shs'000		2018 Shs'000	2017 Shs'000
Balance sheet assets (net of provisions)					
Cash at Hand	15,562,565	15,680,383	0%	-	-
Balances with Bank of Uganda	10,551,722	6,603,275	0%	-	-
Balances with other Financial institutions in Uganda	2,293,914	6,151,550	20%	458,783	1,230,310
Deposit Auction	2,014,902	-	0%	-	-
Placement with Post Bank	2,420,663	-	20%	484,133	-
Placement with FINCA	3,024,411	-	20%	604,882	-
Placement with Pride Micro Finance	6,082,342	3,575,205	20%	1,216,468	715,041
Government securities	24,318,835	16,043,949	0%	-	-
Loans and advances to customers	122,838,355	109,674,897	100%	122,838,355	109,674,897
Other assets	4,788,937	6,778,164	100%	4,788,937	6,778,164
Current income tax recoverable	150,973	121,115	100%	150,974	121,115
Property and equipment	8,662,507	9,144,514	100%	8,662,507	9,144,514
Operating lease prepayments	1,252,605	1,155,119	100%	1,252,605	1,155,119
Intangible	2,735,821	3,109,304	0%	-	-
Deferred income tax asset	-	-	0%	-	-
On balance sheet assets	**206,698,552**	**178,037,475**		**140,457,644**	**128,819,160**
Market risk adjustment	**3,214,707**	-	100%	**3,214,707**	-
Off-balance sheet positions					
Guarantees	41,500	938,715	100%	41,500	938,715
Commitments to lend	921,478	812,368	50%	460,739	406,184
Off balance sheet items	**962,978**	**1,751,083**		**502,239**	**1,344,899**
Total risk-weighted assets	**210,876,237**	**179,788,558**		**144,174,590**	**130,164,059**

Loans and advances to customers	2018 Shs'000	2017 Shs'000
Gross loans and overdraft (Note 17(a))	126,150,334	112,791,964
Less specific provisions (FIA)	(2,226,949)	(2,179,660)
Less interest in suspense	(722,310)	(677,813)
Cash collateral	(362,720)	(259,594)
Net Loans and advances	**122,838,355**	**109,674,897**

Capital ratios per Financial Institutions Act (FIA)

Core capital	**37,281,310**	**32,797,396**
Total capital	**38,513,321**	**33,896,741**
FIA minimumratio capitalrequirement		
Core capital (10%)	**25.90%**	**25.20%**
Total capital (12%)	**26.70%**	**26.0%**

5 Interest income

	2018 Shs 000	2017 Shs 000
Loans and advances	36,380,066	33,287,903
Government securities	2,074,741	1,288,633
Short term placements	1,568,828	817,977
	40,023,635	**35,394,513**

6 Interest expense

	2018 Shs 000	2017 Shs 000
Customer deposits	5,529,954	5,564,619
Borrowed funds	2,733,225	3,062,321
	8,263,179	**8,626,940**

7 Fee and commission income

	2018 Shs 000	2017 Shs 000
Transactional fees and commission income	5,696,988	5,570,626
Credit related fees and commission income	13,449,352	12,360,799
	19,146,340	**17,931,425**

8 Foreign exchange income

	2018 Shs 000	2017 Shs 000
Realized foreign exchange gains	120,368	122,058
Unrealized foreign exchange gains	-	3,062
	120,368	**125,120**

9 Other income

	2018 Shs 000	2017 Shs 000
Recovery of written off loans	1,211,061	978,965
Grant income	250,666	260,180
Other income	221,239	624,232
	1,682,966	**1,863,377**

10 Operating expenses

	2018 Shs 000	2017 Shs 000
Depreciation of property and equipment (Note 18)	2,399,362	2,307,635
Amortization of intangible assets (Note 20)	653,533	776,554
Employee benefits expense (Note 11)	23,359,354	20,801,591
Auditor's remuneration	283,390	388,208
Legal fees	409,722	293,067
Other professional fees	83,862	201,865
Rent and rates	2,826,614	2,615,572
Advertising and promotion	1,372,950	1,222,553
Communication and technology	2,720,601	2,656,603
Administration costs	7,034,991	7,240,075
Other	1,044,990	592,447
	42,189,369	**39,096,170**

11 Employee benefits expense

	2018 Shs 000	2017 Shs 000
Salaries and wages	18,842,945	16,786,785
NSSF contributions	1,844,888	1,733,380
Defined contribution scheme contributions	575,277	534,830
Other staff costs	2,096,244	1,746,596
	23,359,354	**20,801,591**

12 Income tax expense

	2018 Shs 000	2017 Shs 000
Current income tax charge	2,273,581	490,547
Deferred income tax Charge-Current Year (Note 25)	(81,264)	817,263
	2,192,317	1,307,810
Profit before income tax	**8,040,854**	**3,682,278**
Tax calculated at the statutory income tax rate of 30% (2017: 30%)	**2,412,256**	**1,104,684**
Tax effect of:		
- Tax effect of non-deductible items	**38,866**	**25,094**
- 30% standard tax rate applied on income taxed at 20%	**(201,086)**	**(124,899)**
- Prior year deferred income tax under provision	**(57,719)**	**302,931**
Income tax Charge	**2,192,317**	**1,307,810**

Current income tax recoverable was as follows:		
At start of year	**121,114**	**253,998**
Adjustments for prior period items	**49,606**	-
Current income tax charge	**(2,273,581)**	**(490,546)**
Income tax paid	**2,253,834**	**357,662**
At end of year	**150,973**	**121,114**

13 Cash and balances with Bank of Uganda

	2018 Shs 000	2017 Shs 000
Cash on hand	**15,562,565**	**15,680,383**
Balances with Bank of Uganda	**10,551,722**	**6,603,275**
IFRS 9 Impairment	**(14,983)**	**-**
	26,099,304	**22,283,658**

14 Placements and deposits with other banks

	2018 Shs 000	2017 Shs 000
Balances with Banks in Uganda	**2,293,914**	**6,151,550**
Placements with other banking institutions - inside Uganda	**13,542,318**	**3,575,205**
IFRS 9 Impairment	**(22,487)**	**-**
	15,813,745	**9,726,755**

15 Government securities

Maturing within 90 days	**8,000,000**	14,449,638
Maturing later than 90 days	**11,000,000**	-
FVTOCI	**-**	2,291,938
	19,000,000	16,741,576
Unearned interest	**(987,133)**	(697,627)
IFRS 9 impairment	**(25,578)**	-
	17,987,289	16,043,949
Treasury bonds		
Maturing within 90 days	**2,179,101**	-
Maturing after 90 days	**4,161,449**	-
IFRS 9 Impairment provision	**(9,004)**	-
	6,331,546	-
Net carrying amount	**24,318,835**	16,043,949

16 Other assets

	2018 Shs 000	2017 Shs 000
Accounts receivable and prepayments	**4,251,010**	**4,223,336**
Other receivables	**105,788**	**1,980,625**
Consumables	**432,139**	**574,203**
	4,788,937	**6,778,164**

17 Loans and advances to customers

a) Analysis of loan advances to customers by category:

	2018 Shs 000	2017 Shs 000
Term loans	**124,749,745**	**111,865,331**
Overdrafts	**1,400,589**	**926,633**
Total Gross Loans	**126,150,334**	**112,791,964**
Staff loan fair valuation adjustment	**(92,266)**	**(190,997)**
Less: Provision for impairment of loans and advances		
Stage 1	**(1,098,635)**	**(1,602,416)**
Stage 2	**(37,304)**	**(157,662)**
- Stage 3	**(2,219,710)**	**(421,139)**
Total loan provisions	**(3,355,649)**	**(2,181,217)**
Net loans and advances	**122,702,419**	**110,419,750**

The weighted average effective interest rate on loans and advances to customers was 25 % (2017: 25.3%).

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

	Individually assessed Shs 000	Collectively assessed Shs 000	Total Shs 000
Year ended 31 December 2017			
At 1 January	**1,046,120**	**992,371**	**2,038,491**
Provision for loan impairment	1,595,665	2,313,382	3,909,047
Loans written off during the year as uncollectible	(2,125,603)	(1,640,718)	(3,766,321)
At 31 December	**516,182**	**1,665,035**	**2,181,217**

Year ended 31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January	1,602,416	157,662	421,139	2,181,217
Provision for loan impairment	579,757	100,103	1,765,072	2,444,932
IFRS 9 Impairment adjustment	(881,215)	(97,537)	1,889,769	911,017
Loans written off during the year as uncollectible	(202,323)	(122,924)	(1,856,270)	(2,181,517)
At 31 December	**1,098,635**	**37,304**	**2,219,710**	**3,355,649**

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

Year ended 31 December 2018		
At 1 January		
Impairment charge on cash & balances with Bank of Uganda (note 13)		10,129
Impairment charge on Bank balances (note 14)		12,917
Impairment charge on investment securities (note 15)		11,929
Total impairment charge		**34,975**
IFRS 9 Impairment adjustment on balances with bank of Uganda		4,854
IFRS 9 Impairment adjustment bank balances		9,570
IFRS 9 Impairment adjustment on investment securities		22,653
Total impairment adjustment		**37,077**
At 31 December		**72,052**

(b) Impairment losses charged to profit or loss

	2018 Shs 000	2017 Shs 000
Impairment charge on cash & balances with Bank of Uganda (note 13)	**10,129**	**-**
Impairment charge on Bank balances (note 14)	**12,917**	**-**
Impairment charge on investment securities (note 15)	**11,929**	**-**
Impairment charge on Loans (note 17 (a))	**2,444,932**	**3,909,047**
	2,479,907	**3,909,047**

(c) Regulatory Credit Risk Reserve

Analysis as required under the Financial Institutions Act (FIA)

	2018 Shs 000	2017 Shs 000
Total provision as per IFRS (Note 17(a))		
Stage 1	**1,098,635**	1,602,416
Stage 2	**37,304**	157,662
Stage 3	**2,219,710**	421,139
	3,355,649	2,181,217
Total provisions as required under the FIA		
Specific provisions	**2,226,949**	2,179,660
General p rovisions	**1,232,011**	1,099,345
	3,458,960	3,279,005
Regulatory reserve		
At 1 January	**1,097,788**	1,228,953
Trans fer to retained earnings	**(994,477)**	(131,165)
At 31 December	**103,311**	1,097,788

18 Property and equipment

	Buildings Shs 000	Motor vehicles/ Cycles Shs 000	Computer Hardware Shs 000	Fixtures, fittings and equipment Shs 000	Work in progress Shs 000	Total Shs 000
Year Ended 31 December 2017						
Opening net book amount	162,802	610,939	2,068,432	6,478,369	43,947	9,364,489
Additions	-	602,889	398,358	924,762	281,278	2,207,287
Transfers from WIP	-	-	-	5,250	(43,947)	(38,697)
Depreciation charge	(2,665)	(252,873)	(744,653)	(1,307,443)	-	(2,307,634)
Disposals						
Cost	-	(158,726)	(35,752)	(177,944)	-	(372,422)
Depreciation	-	142,064	31,270	118,157	-	291,491
Closing net book amount	**160,137**	**944,293**	**1,717,655**	**6,041,151**	**281,278**	**9,144,514**
Cost	197,739	2,522,436	5,624,849	14,370,987	281,278	22,997,289
Accumulated depreciation	(37,602)	(1,578,143)	(3,907,194)	(8,329,836)	-	(13,852,775)
Net book amount	**160,137**	**944,293**	**1,717,655**	**6,041,151**	**281,278**	**9,144,514**
Year Ended 31 December 2018						
Opening net book amount	**160,137**	**944,293**	**1,717,655**	**6,041,151**	**281,278**	**9,144,514**
Asset reconciliation adjustment	**(22)**	**2,670**	**775**	**6,947**	-	**10,370**
Additions	**405,995**	119,680	514,285	837,393	175,356	2,052,709
Transfers from WIP	-	-	-	46,250	(182,648)	(136,398)
Depreciation charge	(3,129)	(258,235)	(704,410)	(1,433,588)	-	(2,399,362)
Disposals	-	(2,302)	(248)	(6,776)	-	(9,326)
Closing net book amount	**562,981**	**806,106**	**1,528,057**	**5,491,377**	**273,986**	**8,662,507**
Cost	603,734	2,631,490	6,129,606	15,175,185	273,986	24,814,001
Accumulated depreciation	(40,753)	(1,825,384)	(4,601,550)	(9,683,807)	-	(16,151,494)
Net book amount	**562,981**	**806,106**	**1,528,056**	**5,491,378**	**273,986**	**8,662,507**

19 Operating lease prepayments

	2018 Shs 000	2017 Shs 000
Cost		
At 1 January	12,179,092	9,586,849
Additions	2,924,100	2,592,243
At 31 December	15,103,192	12,179,092
Amortization		
At 1 January	11,023,973	8,408,401
Charge for the year	2,826,614	2,615,572
At 31 December	13,850,587	11,023,973
Net book value		
At 31 December	1,252,605	1,155,119

20 Intangible assets

	2018 Shs 000	2017 Shs 000
Net book amount at 1 January	3,109,304	3,795,606
Additions: Computer Software	143,652	51,555
Transfer from property and equipment	136,398	38,697
Amortization	(653,533)	(776,554)
Net book amount at 31 December	2,735,821	3,109,304
Cost	7,745,999	7,465,949
Accumulated depreciation	(5,010,178)	(4,356,645)
Net book amount	2,735,821	3,109,304

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

21 Customer deposits

	2018 Shs 000	2017 Shs 000
Current and demand deposits	24,893,713	15,477,177
Savings accounts	84,542,586	68,606,046
Fixed deposit accounts	14,896,906	18,873,280
	124,333,205	102,956,503

The weighted average effective interest rate on customer deposits was 2% (2017: 2.0%).

22 Deposits and balances due to other banking Institutions

	2018 Shs 000	2017 Shs 000
Term deposits	15,391,303	4,365,100
	15,391,303	4,365,100

The deposits with other banking institutions are interest bearing. The weighted average effective interest rate on deposits and balances due to other banking institutions was 12%.

23 Borrowings

	2018 Shs 000	2017 Shs 000
Uganda Development Bank	4,823,229	5,787,607
aBi Finance	3,156,993	4,739,342
Stromme Microfinance East Africa Limited	185,096	925,489
Uganda Energy Credit Capitalisation Company	971,022	1,147,570
The Micro Finance Support Centre Limited	2,041,752	3,045,734
East Africa Development Bank	4,227,845	5,070,345
Oikocredit	-	2,600,000
	15,405,937	23,316,087

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

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

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

The Stromme facility was secured in the amount of Ugx 4.0bn but disbursed in 2 tranches of Ugx 2.5bn & Ugx 1.5bn at a fixed interest rate of 14.5% for a period of 4 years. It's repayable in equal instalments and it was extended for the purpose of on-lending the enterprising poor Ugandans especially women entrepreneurs.

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

The loan from Micro Finance Support Centre Limited in the amount of Ugx 3.0bn was obtained for a period of 12 months at a fixed rate of 11%. It was extended for purposes of on-lending to teachers through the Teacher's SACCO and it's secured by a fixed debenture charge over the Bank's loan portfolio to the extent of the amount advanced.

The Uganda Energy Credit Capitalisation Company facility (UECCC) was in the amount of Ugx 1.4bn secured for a period of 10 years at a rate of 8.5% for purposes of Solar refinancing. It is repayable on a half yearly and it's secured by a demand promissory note in favour of UECCC.

The OIKO credit instrument was a loan facility of Ugx 6.0bn advanced for a period of 6 years at a variable interest rate of T-bill rate 182 days plus 1.905% but with a floor of 12%. It is repayable on a quarterly basis and it is backed by a pledge on the Bank's grade A loan portfolio and promissory notes covering 100% of the loan value.

24 Other liabilities

	2018 Shs 000	2017 Shs 000
Accounts payable	**1,803,879**	3,797,451
Accruals and provisions	**773,594**	93,350
Other taxes payable	**750,505**	714,533
Gratuity & pensions	**683,654**	415,931
Deferred income	**1,764,516**	1,714,153
Designated funds	**83,595**	471,385
Capital grants	**902,984**	1,023,528
Others	**1,763,556**	1,484,286
	8,526,283	9,714,617

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

25 Deferred income tax asset

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

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

Year ended 31 December 2017	1 January 2017 Shs 000	Charged (credited) to P/L Shs 000	31 December 2017 Shs 000
Deferred income tax liabilities			
Accelerated tax depreciation	**(1,694,346)**	**91,717**	**(1,602,629)**
Deferred income tax assets			
Tax losses carried forward	886,390	(886,390)	
Capital grants	366,886	(59,827)	307,059
Provisions for loan impairment	297,711	201,799	499,510
Other provisions	317,347	(164,562)	152,785
	1,868,334	(908,980)	959,354
Net deferred income tax asset	**173,988**	**(817,263)**	**(643,275)**

The movement on the deferred tax asset account is as follows:	2018 Shs 000	2017 Shs 000
At 1 January	(643,275)	173,988
Income statement (charge)/ (note 12)	81,264	(817,263)
At 31 December	(562,011)	(643,275)

26 Finance Lease Arrangements

The Bank enters finance leasing arrangements as a source of financing to support her operations. As at end of the year 2018, the Bank had running leases with Computer Point, one of its major suppliers for six note-counters over a period of 3 years. Annual lease rentals were agreed at Shs 54,516,000, payable semi-annually with an effective date of the lease arrangement was 13 May 2016.

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

	2018 Shs 000	2017 Shs 000
As a 1 January	67,311	110,283
New contracts	586,022	-
Payments made during the year	(232,116)	(42,972)
Total	421,217	67,311
Not later than 1 year	99,995	67,311
Later than 1 year but less than 5 years	321,222	-
Later than 5 years	-	-
Total	421,217	67,311

27 Share capital

	Number of shares issued & fully paid (thousands)	Ordinary shares Shs 000
Year ended 31 December 2016		
At start of year	27,785,402	27,785,402
Rights issue of shares	-	-
At year end	**27,785,402**	**27,785,402**
Year ended 31 December 2018		
At start of year	**27,785,402**	**27,785,402**
Bonus issue of shares	-	-
At end of year	**27,785,402**	**27,785,402**

The total authorised number of ordinary shares is Shs 30 million (2017: 30 million) with a par value of Shs 1,000 per share. No share issues were done during the year 2018.

28 Bank shareholding

The Bank shareholders are as follows:

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

29 Analysis of cash and cash equivalents

	2018 Shs 000	2017 Shs 000
Cash and Balances with Banks of Uganda (note 13)	26,099,304	22,283,658
Less: cash reserve requirement	(10,810,000)	(8,720,000)
Government securities - maturing within 90 days & AFS (note 15)	10,165,015	16,043,949
Balances and Placements with other banks (note 14)	15,813,745	9,726,755
	41,268,064	**39,334,362**

Cash and cash equivalents include the cash reserve requirement held with the Bank of Uganda. Banks are required to maintain a prescribed daily average minimum cash balance with the Bank of Uganda from time to time and the amount is determined as 8% of the average outstanding customer deposits over a cash reserve cycle period of two weeks. Whilst it's available for use in the bank's activities and may fall to 50% of the margin on a given day there are sanctions for non-compliance.

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

	2018 Shs 000	2017 Shs 000
Cash and Balances with Banks of Uganda (note 13)	**26,099,304**	22,283,658
Government securities - maturing within 90 days & AFS (note 15)	**10,165,015**	16,043,949
Balances with other banks (note 14)	**2,290,657**	6,151,550
	38,554,976	**44,479,157**
Restricted balances with Bank of Uganda	**2,000,000**	2,000,000
Movement in restricted balances: At start of year Movement during the year	**2,000,000**	2,000,000
At end of year	**2,000,000**	2,000,000

30 Earnings per share

	2018	2017
Profit attributable to equity holders of the Bank (Shs 000)	**5,848,538**	2,364,703
Weighted average number of ordinary shares in issue (thousands)	**27,785,402**	27,785,402
Earnings per share (expressed in Shs per share)	**0.210**	0.085

31 Related party balances

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

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

	2018 Shs 000	2017 Shs 000
Borrowings from related parties		
Loans from Oikocredit (shareholder)	-	2,600,000
Interest expense incurred	**211,188**	646,207
Loans and advances to key management	**1,662,835**	1,361,618
Loans to Shareholder (Ms Lydia Ochieng Obbo)	**114,280**	145,560
Loans to directors, shareholders and key management	**1,777,115**	1,507,178

Advances to customers include loans to directors and loans to employees as shown above.

Interest income earned on loans and advances to key management and directors is Shs 111 million (2017: Shs 115 million). All loans to management were administered at the approved interest rate on staff loans of 10% while that to the shareholder was extended at a rate of 23%.

Key management compensation		
	2018 Shs 000	2017 Shs 000
Salaries and short-term employment benefits	**2,703,527**	**1,481,085**
Terminal benefits	**575,277**	**534,830**
Other staff benefits	**121,382**	**112,012**
	3,400,186	**2,127,927**
Directors' remuneration		
Directors' fees	**428,709**	**997,449**

32 Off- balance sheet financial instruments, contingent liabilities and commitments

The following are the commitments outstanding at year end	2018 Shs 000	2017 Shs 000
Acceptances and letters of credit	-	-
Guarantee and performance bonds	**41,500**	**938,715**
	41,500	**938,715**

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:

	2018 Shs 000	2017 Shs 000
Approved advances not utilized	**921,478**	812,368

33 Revaluation reserve

	2018 Shs 000	2017 Shs 000
As at 1 January	2,217	11,982
Net gains from changes in fair value	(2,217)	(9,765)
Net movement for the year	-	2,217

34 Proposed dividends

No interim dividend was paid during the year (2017: Nil). The directors recommend a final dividend for the year 2018 of Shs 1.755 billion (2017: Shs 709m).

35 Shareholder exit transaction

During the year 2018, the Bank commenced processes of exiting some of its shareholders in line with the shareholders' agreement. A consultant was accordingly hired by the shareholders to help see this process through and by the end of year 2018; Shs 34 million had been spent towards this cause. An adjustment to this extent has been made in the statement of changes in equity.

Notes


Pharmacy
DISPENSARY
50000
BANK OF UGANDA