FINANCE trust BANK

Putting Women First

SUPPORTING TEAMS; SUSTAINING GROWTH

Annual Report 2020

Celebrating

37

years of growing

businesses &

trust every day


Get an
Agro - Business
Loan now and
boost your business
The Agro–Production Loan is specially tailored for farmers who wish to increase their agricultural production yields. Do you wish to purchase seeds, pesticides, fertilisers, farm implements, and livestock?
This loan is offered to individuals, joint account holders, partnerships, Associations and companies dealing in agricultural production.
Benefits
• Increase your Agricultural working capital
• Pay loan is small managable installments
• Enjoy low interest rates
• Pay loan over a long period of time
• Grace Period.

Celebrating 37 years of growing businesses & trust every day

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WHO WE ARE AND WHAT WE DO

Finance Trust Bank Limited (FTB) is a licensed and regulated financial institution by Bank of Uganda under license number A1.028. The Bank has a large branch network of thirty five (35) branches serving over 470,000 customers, countrywide. The bank was established in 1984 first as Uganda women finance trust and in 2004 Transformed into an MDI and in 2013 was granted full banking license offering a full spectrum of all banking services including provision of various products and services namely deposits, loans, money transfer services, and forex.

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

Our purpose

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

Who we serve

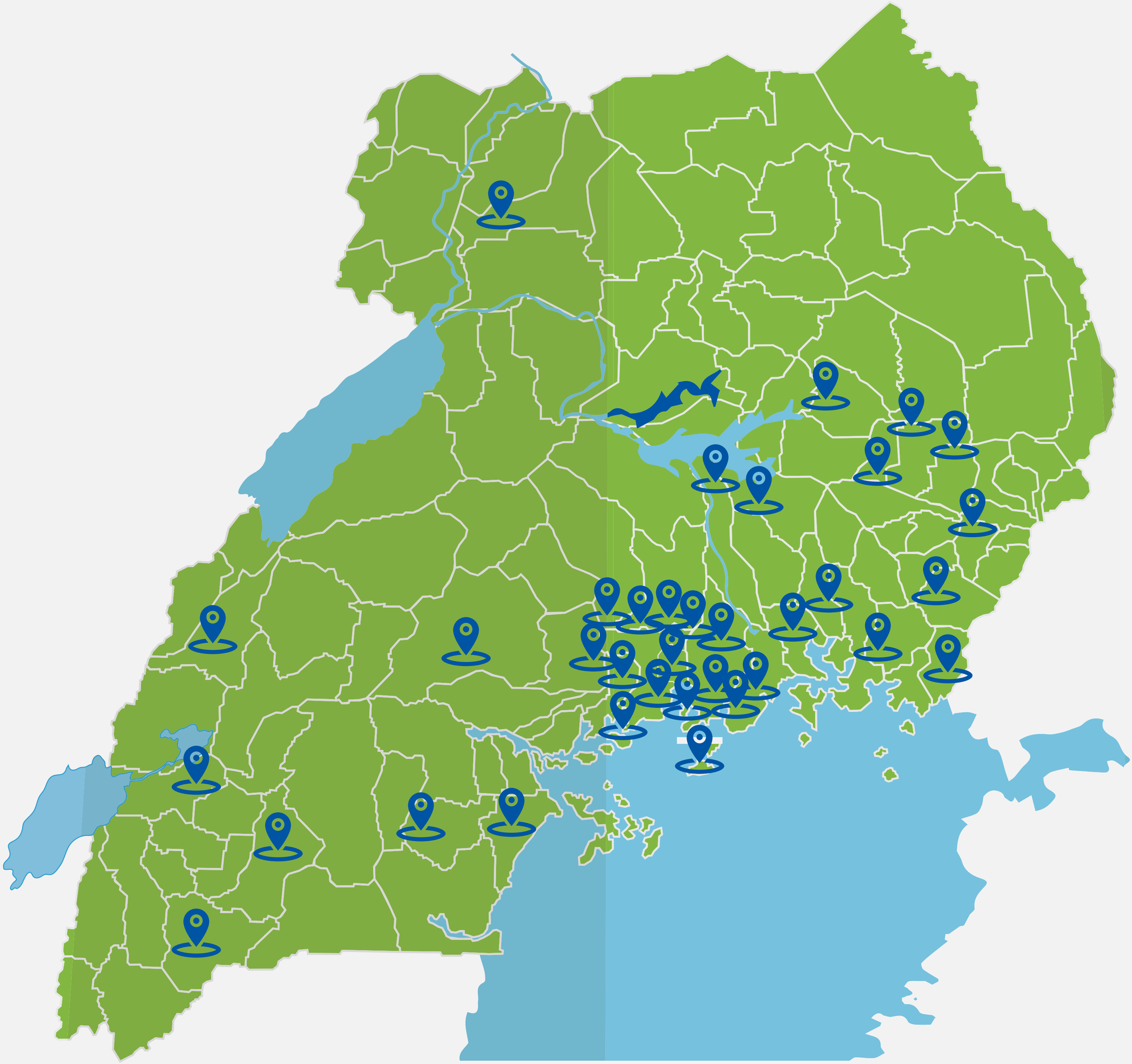
Our core client lies in the lower pyramid of the economic strata, and inclined to serve women who are emerging rural entrepreneurs and enterprising urbanites as individuals and as saving groups.

OUR BANKING NETWORK AND CONTACTS

Arua Branch Plot 2 Duka Rd 0791 333000	**Bugiri Branch** Plot 74,Grant Street, Tororo Rd 0794 333001	**Katwe Branch** Plot 121 & 115,Block 6, Kampala 0791 333035	**Mbarara Branch** Plot 31 High Street Mbarara 0791 333042	**Mukono Branch** Plot 35, Kampala- Jinja Rd 0791 333043
Central Branch Plot 1 Bombo Rd, Sure House 0791 333003	**Entebbe Branch** Plot 29, Kampala Rd - Entebbe 0791 333004	**Kitintale Branch** Plot 1315 block 243 Kitintale Trading Centre 0794 333037	**Soroti Branch** Plot 49 Gweri Rd, Soroti 0794 333045	**Kamuli Branch** Plot 1 Kitimbo Road, Kamuli 0791 333031
Tororo Branch Plot 7, Bazaar Street, Tororo. 0794 333044	**Iganga Branch** Plot 74, Main Street. 0794 333005	**Lwengo Branch** Mbirizzi Trading centre, Lwengo 0791333155	**Pallisa Branch** Plot 11 Block B, Gogonya Road 0794 333046	**Ntungamo Branch** Plot 18, Old Kabale Rd, Ntungamo 0791 333050
Jinja Branch Plot 83 West Main street Jinja 0791 333024	**Kabarole Branch** Rukidi III Street, Fortportal 0791 333026	**Masaka Branch** Plot 17 Edward avenue 0794 333040	**Mbale Branch** Plot 23 Republic Street 0794 333041	**Nansana Branch** Plot 8538, opposite Nabweru Junction 0791333106
Kalerwe Branch Plot 641 Kibuga Mengo Kalerwe (Opp. Shell Petrol Station) 0791 333029	**Nakivubo Branch** Plot 30-32 Mackay Rd, Kampala, Freeman Foundation Building 0791 333046	**Busia Branch** Plot 53, Custom Rd. Busia 0794 333002	**Gomba Branch** Block 212, Plot 117 Kanoni Trading Centre, Gomba 0792 333183	**Owino Branch** Plot 769 (Kafumbe Mukasa Rd) 0791 333051
Kamwenge Branch Plot 10, Station Rd 0791 333034	**Kapchorwa Branch** Kapchorwa Rd 0791333093	**Ishaka Branch** Rukungiri Road, 0794 333006	**Kampala Road Branch** Plot 4 Kampala Rd 0791 333030	**Lugazi Branch** Plot 65 Block 316, Lugazi 0794 333039
Kayunga Branch Plot 103 Kayunga Town 0794 333036	**Kikuubo Branch** Plot. 21 Nakivubo Rd Kampala 0791333105	**Kalangala Branch** Plot 52/3 Main Rd Kalangala 0791 333027	**Nateete Branch** Plot 1246 & 974 Nateete towards traffic lights 0791 333048	**Kumi Branch** Plot 26A, Ngora Rd, Kumi 0794 333038

OUR FOOTPRINT
ACROSS UGANDA

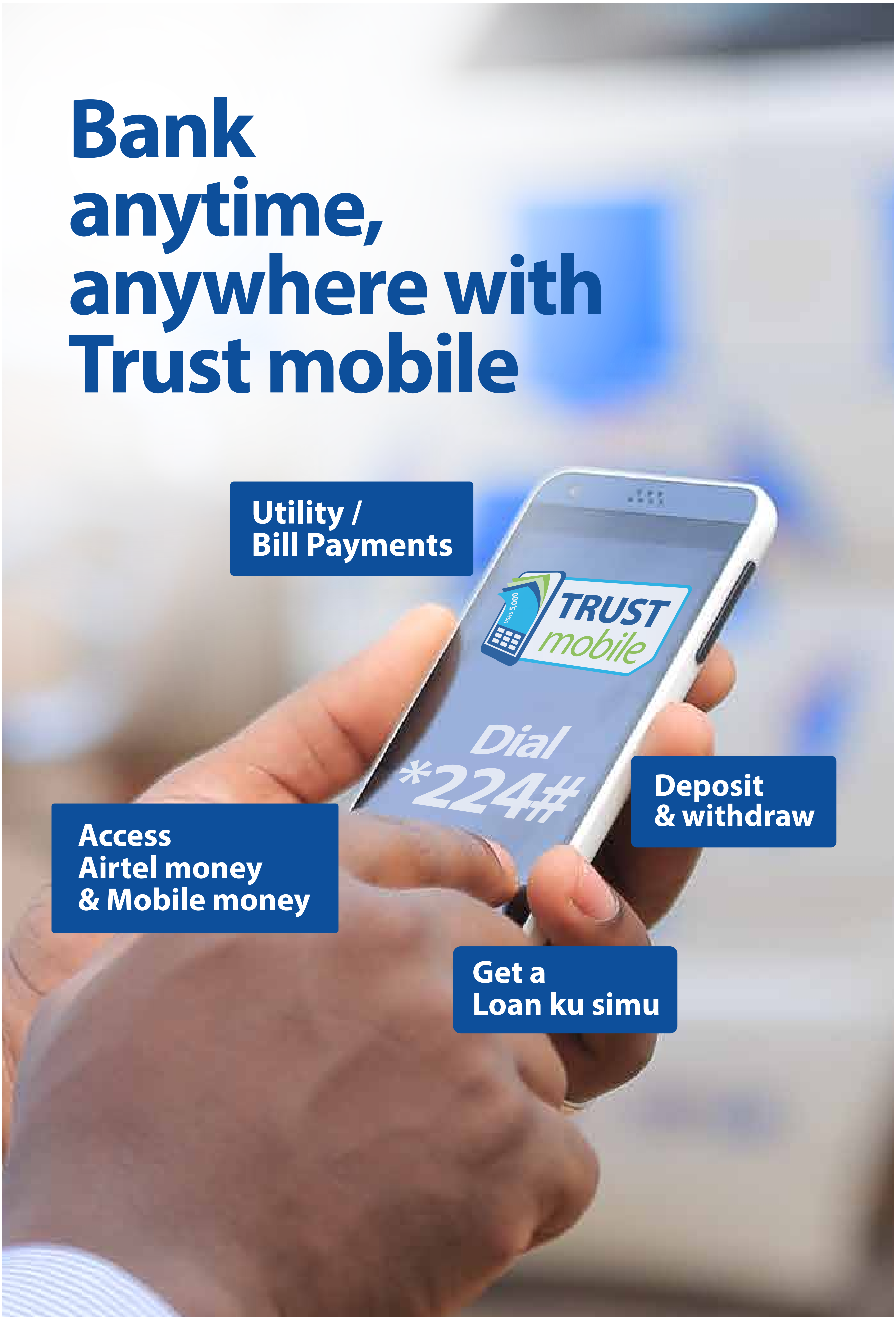
The bank has 35 operational branches with 11 Automated Teller Machines and 125 Agent Banking partners. The branches are clustered into 5 regional clusters namely; Central A, Central B, Mid East, Far East and Western Region.



OUR PARTNERS

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

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


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

BOARD CHAIRPERSON'S STATEMENT

I am delighted to report that our efforts yielded, and we were able to write a profit of UGX5.8 billion, an understandably marginal decline from the previous year of 2019: UGX6.1billion.

Board Chairperson
Dr. Evelyn Kigozi Kahiigi

In 2020 we all strived to survive and lived on the hope of thriving in all spheres of life. The Bank is currently weathering the COVID-19 health crisis and geopolitical tensions that characterized 2020 by focusing on two performance parameters: 1) building and maintaining its customer base and; 2) enhancing its banking experience by leveraging technology. Focusing on these two performance parameters exhibited the Banks commitment to provide quality service delivery, improve customer and supplier engagements, enhance staff wellbeing, build operational resilience and ultimately protect and preserve shareholder value. I am delighted to report that our efforts yielded, and we were able to write a profit of UGX5.8 billion, an understandably marginal decline from the previous year of 2019: UGX6.1billion.

To improve financial reporting and compliance with the regulator - Bank of Uganda, the Bank adopted the International Financial Reporting Standards (IFRS 9 and IFRS16) in 2020. The new standards provide accounting rules that determine how transactions and other accounting events are presented in financial statements. The improvement aims to maintain credibility, transparency and support stakeholders (Shareholders, Board of Directors, Management and staff) to make informed financial decisions quickly.

The Finance Trust Bank Board subscribes to a corporate governance framework that supports the separation of the Board's supervisory role from the executive management. The Board consists of board committees composed of non-executive directors who strategically oversee and support critical areas of bank operations. During the year 2020, the Board structure and composition remained the same, with twelve (12) members actively engaged in Board affairs.

I want to thank the Directors for their commitment and contribution towards steering the Bank business. Amidst the COVID-19 pandemic and subsequently the global lockdown, the Board committees frequently engaged with Management to review and resolve critical aspects that included:

- Staff health and safety
- Job security for Bank staff
- Business continuity
- Supporting customers' businesses to survive the pandemic through offering credit relief measures
- Liquidity management amidst the credit relief accorded to borrowing customers
- Risk management
- Enhancement of the delivery channels by leveraging technology

Finance Trust Bank's history of fostering gender inclusiveness is a significant stepping stone for the Bank to stand firm and plan for improved capacity building for all staff and customers while considering gender equality. The Bank strives to achieve and sustain an equal future for women to compete and be recognized for achievements previously preserved for men. The Bank sees women in a vulnerable state, especially when using technology. In this respect, the Bank intends to drive the financial inclusion for women agenda, not just internally, but also extend it to include the customers. The Bank will take a keen interest in closely monitoring the uptake of online banking solutions by women to help scale up the numbers and innovate around them. Through the HUG culture, the Bank intends to create a cultural shift that embraces women-centric values, such as integrity, transparency and respect through hard work and rewarding outstanding performance. As a Bank, we are still focused on leveraging technology to provide good customer experiences, drive the women agenda, and believe that women's economic empowerment is necessary to drive global growth and sustainability. The Bank fundamentally is looking forward to doing great business by transforming our banking culture and taking our promise of putting women first to a whole new level.

The year 2021 has come with a new set of challenges created by the COVID-19 pandemic. It is envisaged that the strategies put in place by the Bank will enable it to resolve the challenges and maintain its resilience and existence in this competitive banking industry. The Bank is also optimistic that the world's economy will weather off the pandemic, Uganda's economic recovery stimulus package will support the SMEs, and activities such as school study calendars, businesses settling and building startups will resume at the earliest.

Based on the current financial standing, the Board has not recommended payment of dividends for the year ended 31st December 2020. The capital generated over the reporting period will fund activities geared towards business growth in 2021. However, the Board is confident that the year 2021 will be one with greater returns and even bigger prospects for Finance Trust Bank and the banking industry at large. To support business growth, the Board will continue to oversee the execution of the Bank's strategy as it supports an agile and committed workforce. Worth noting is that Finance Trust Bank is focused on becoming a leader in the micro-banking space with a reliable digital footprint and extensive customer base as we aspire to be the **"Bank of Choice."**

After tax profits contracted by
5%
from shs
6.1bn to shs
5.8bn

"the Bank intends to drive the financial inclusion for women agenda, not just internally, but also extend it to include the customers."

Celebrating 37 years of growing businesses & trust every day

MANAGING DIRECTOR'S STATEMENT

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

Managing Director
Anne Nakawunde Mulindwa

Deposits grew by
32%
from shs
153.9bn to shs
203bn

The operating environment

Like all economies across the globe, the land scape within the local environment was afflicted throughout the 12-months period following the COVID-19-19 pandemic outbreak at the close of 2019. The effects of this were escalated by the series of interventions implemented globally by governments, seeking to contain the virus. The most pronounced among the interventions were lockdowns that precipitated slowdown in economic activities that resultantly triggered shutdown of business operations across the globe.

Back home, the lockdown took its toll on the country towards the end of the first quarter of the year 2020. This was followed by COVID-19-19 relief measures prescribed by the Central Bank and implemented by Supervised Financial Institutions (SFIs) as they sought to give support to their borrowing customers through the unprecedented times. These measures implied restructuring of customers' loan facilities to align them with their revised cashflow anticipations.

Resultantly, Finance Trust Bank, like other players had to restructure a good portion of its loan portfolio and also redefined the workplace to limit staff interactions among other interventions. This inevitably led to a slowdown in business and also called for measures to address the other adverse implications to include liquidity strains and credit risks among others.

The political environment also weighed in as the year came to a close. The country was preparing for the general elections in January 2021. As usual, this had the effect of slowing down business as the levels of skepticism within the business community escalated.

At the outset of the above challenges and throughout the 12 months to December 2020, the Bank remained resilient; riding on its corporate culture of high performance. This was re-enforced and re-launched at start of the year with a new corporate culture dubbed the HUG delivered through a transformational training for all staff and was crowned with an event at which all staff renewed their commitment to offering full customer support.

Key initiatives undertaken and successes realized in the year 2020

The year 2020 marked the second year of implementation for the Bank's 3-year business plan that had been drawn without the COVID-19 pandemic in perspective.

Shareholders' equity went up by **13%** from shs **46bn** to shs **52bn**

After tax profits contracted by **5%** from shs **6.1bn** to shs **5.8bn**

Net loans and advances increased by **32%** from shs **153.9bn** to shs **203bn**

By the end of the first quarter, the Bank was on the mark to prove that it's then newly founded creed of high performance culture was good enough to weather the COVID-19 storm.

The Bank leveraged technology to offer support to its customers through delivery channels such as the Trust Mobile banking application, Agent Banking and Internet Banking among others. This saw the Bank register improvement in the uptake for these services as customers further appreciated possibility of enjoying services without physically visiting the Bank premises.

One of the Bank's objectives is to leverage data analytics to inform business growth initiatives. Through this approach, the Bank was able to clearly map out a typical customer journey for every new customer that comes on board with a clear onboarding and engagement strategy. Thus, the Bank was able to increase its customer enrollment on the mobile banking platform which delivered twice the volume of transactions in the year 2020 in comparison to 2019.

During the reporting year, the Bank bolstered its presence in the space of technological improvements and in line with this, the Trust Mobile application was enhanced to enable functions such as self-password resets & additional security protocols. The Bank also automated a series of its processes with a view of driving efficiency and effectiveness.

The Bank is purposed to maintain an integrated customer centric culture that delivers a distinctive customer experience so as to ensure a high and productive customer base. Our reward system is structured to recognize staff that exhibit outstanding adoption of the new high performance culture and the pass-through effect of this is staff motivation and retention.

As a result of the above interventions, the Bank registered a balance sheet growth of 26% in the year 2020. The loan book increased by 32% while the deposit book expanded by 32%. Consequently the Bank posted a profit of Ugx 5.8bn relative to Ugx 6.1bn recorded for the year 2019. This was remarkable given the turbulent times experienced during the period.

Growth strategies in the post-COVID-19 era

For purposes of ensuring sustained growth and development, the Bank will continue to focus on improved customer experience through excellent customer service. Process automation will continue to sit at the heart of our operations as this is key in fostering excellence at customer service. The working environment remains a priority area with key focus on ensuring that our staff are well facilitated through provision of tools of. Workforce productivity continues to be a priority area with aspects such as motivation, monitoring and evaluation as key inputs.

Strict monitoring of the underlying macroeconomic issues as they unfold, as well as demographic growth dynamics within our core market segments remains critical in informing our positioning within the market. Timely interventions to provide full support to our target communities during challenging times will continue to be our focus as we go forward.

We are increasing our presence in the community with activities that make an emotional connection with our customers as we seek to attract even more prospects. Our target here is to catalyze customer loyalty as this is key in driving retention.

Acknowledgement

I work closely with a very supportive team of senior managers who oversee activities in the various departments so as to drive the strategic direction of the Bank. Am challenged and at the same time, grateful for their commitment to pursue the Bank's mission to be the Bank of Choice.

I wish to extend my sincere appreciation to the entire Bank workforce of over 750 permanent staff, 100 commission agents and a number of contract staff with whom we run the Bank in the midst of the stiff competition and ahead of the uncertain times that we are confronted with. This team continues to anchor our presence in the market place with focus on delivering excellent customer experience at every touch point.

The remarkable efforts of all our stakeholders across the branch network continues to inspire the entire Finance Trust Bank family to do more in the area of customer support and we believe that this will fully support our growth strategies as we go forward.

I wish to extend my sincere appreciation to the Board of Directors for the full support accorded to Management and the staff as we work towards becoming a Bank of choice for all the segments that we are out to serve.

OUR PERFORMANCE SUMMARY

The bank launched a new strategic plan 2020-2022, under the theme: "accelerating sustainable growth" This focused all energies towards achieving success on the theme against all odds.

The Bank registered sustained growth in most of performance parameters throughout the year 2020. The operating environment was coarse with the COVID – 19 pandemic lockdown bringing not only the banking industry but the whole world economy to its knees. The Bank however exhibited resilience and sailed through successfully.

The Bank's deposits grew to Ugx: 231.3Bn end of December 2020; a 30.2 % increment since the beginning of the year.

Cumulative loan disbursement of Ugx.200.77Bn was registered in 2020 compared to Ugx. 183.47Bn in 2019. This represents a growth of 9.5% to the loan book.

The quest for new accounts yielded 50,000 new accounts in 2020. To improve outreach, the Bank rolled out Agent Banking services during the period. As at close of reporting period, the bank on boarded 125 active agents, with the bank's customers having access to over 2000 agents through the shared agent banking platform.

The Bank registered a profit before tax of UGX 8.41billion (2019; UGX 8.71 billion) and a profit after tax of UGX 5.8 billion (2019; 6.1billion).

Our Key performance indicators point to a positive trajectory on delivering the promise to keep the Bank profitable. As we accelerate our strategy, we have refined our focus onto strategic priorities of digital transformation, use of data analytics and maximizing customers' potential.

The Credit relief measures instituted to counter-act the effects of COVID 19 had significant pass-through effects on banking operations. Financial institutions were faced with internal liquidity strains as they needed to support their borrowing clients through loan restructures that effectively meant deferral of loan repayments while at the same time ensuring that obligations were well serviced.

Finance Trust Bank remained solid throughout the tough times with full compliance on all fronts. The Bank leveraged its well-structured funding base coupled with its good relationships with key funders i.e. depositors, lenders & all other liquidity providers to fully offer the required support to its wide network of stakeholders.

Deposits grew by
32%
from shs
153.9bn to shs
203bn

Shareholders' equity went up by
13%
from shs
46bn to shs
52bn

Net loans and advances increased by
32%
from shs
153.9bn to shs
203bn

Total assets grew by
26%
from shs
258bn to shs
325bn

After tax profits contracted by
5%
from shs
6.1bn to shs
5.8bn

Agent Banking
125
Active Agents on boarded by the Bank at the close of the reporting period

"We have continued to make good progress against the strategic priorities of Optimization of Shareholder value, Leveraging Technology, Customer Experience focus, Culture, and Human capital, focus on women and Risk Management."

EXECUTIVE & SENIOR MANAGEMENT TEAM

Annet Nakawunde Mulindwa
Managing Director

Annette Kiggundu
Executive Director

Patricia Kemirembe Katende
Company secretary/ Head, Legal

Percy Paul Lubega
Head of Business Development

Rachael Nantongo
Head of Banking Operations

Ali Lwanga
Head Credit

Filly Lawrence
Head ICT

Christine Namata
Head Finance

Fredrick Muyanja Musoke
Head Internal Audit

Stella Naigulu
Head Human Resource

Martin Acegere
Head Risk

Sarah Gwokyalya
Head Compliance

Isa Mukasa Kikomeko
Head of Treasury

Market Environment

- Global Macro factors affecting world economy
- Micro economy trends in Uganda and the East African Region
- Economic
- Technological

Asian Area economy had positive growth in China of

2.3%

but the overall still contracted by 1.2%

East Africa's growth projection for 2020 down to

1.2%

Percentage women borrowing and saving money to start a business is at

90.5%

Uganda has registered an average annual GDP growth of over 5 percent over the last 5 years up to 2019. However, this growth is not always reflected at the microeconomic level due to the persistence of inequality between different demographic groups in society.

Global Macro factors affecting world economy

Global GDP contracted sharply in 2020, likely by 3.5%. While the Euro area economy was worst hit with a contraction of 6.8% in 2020 from 1.3% in 2019 as national COVID-19 lockdowns were required total shut down of trade and industry, the Asian Area economy was on the other hand least affected mainly driven by positive growth in China of 2.3%, but the region overall still contracted by 1.2%**[1]**.

This means that Africa as a region, being a major market destination is likely to also register minimal growth in 2021. The trends for recovery lie in supporting local enterprises with stimulus packages and promoting agro-based enterprises to feed both the local and regional markets.

Micro economy trends in Uganda and the East African Region

Regionally, economic disruption caused by the COVID-19 pandemic has pushed East Africa's growth projection for 2020 down to 1.2%**[2]**. The major income earners for the region were threatened to near collapse. Sector wise, tourism, education, exports, foreign remittances and travel sectors have taken a deep decline since the onset of COVID- 19. COVID-19 has worsened the effects of poverty and up to three million people could fall into poverty particularly in urban areas. This is according to the World Bank.

Demographically, the Ugandan local population which currently stands at approximately 45 million is described as young with an estimated 58% below 30 years of age. In 2019, Uganda's female population amounted to approximately 22.46 million, while the male population amounted to approximately 21.81 million. The population until recent times was predominantly religious, however with the introduction of multimedia, there is a big swing to the permissive culture and hence new lifestyles and tastes especially in the urban centres.

Uganda has registered an average annual GDP growth of over 5 percent over the last 5 years up to 2019. However, this growth is not always reflected at the microeconomic level due to the persistence of inequality between different demographic groups in society.

Gender inequality has been identified as the most significant and persistent of all inequalities and women are not reaping the same benefits and returns as men from the country's strong macroeconomic performance.

According to the Uganda National Household Survey (UNHS) 2016/17, over 10 million women were recorded to be in the working age (14-64 years) with about 75 percent of them working compared to 82 percent of men. The median nominal monthly earnings for women was estimated to be UGX. 110,000 which is half the median nominal monthly earnings for men (UGX. 220,000). This can be attributed to the large number of women confined to the lower paying jobs or the unpaid care.

More women than men are reliant on informal financial services, this means that they have less access to formal credit lines and are vulnerable to informal lenders.

1. https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
2. https://www.afdb.org

Uganda has the highest percentage of female entrepreneurs in the world, with 90.5% of women borrowing and saving money to start a business.**[3]**

Therein lies an opportunity for Finance Trust Bank to tap into this business potential and reap.

Economic

GDP grows steadily at an average of 4.5% per annum. Inflation is maintained at between 1.5% and 3% The UGX is stable and is pegged to the US$ at a rate of 3680.

The economies of the other countries in the EAC are also stable and should not affect the UGX in the near future. The financial sector is growing especially FINTECH. Construction and agro business are on the rise. The main export product, coffee is growing. The fishing industry is the new exciting venture in agriculture. A midstream phase in the oil and gas industry is on the verge of breaking through to spark off a new wave of infrastructure developments including a new international airport. Tourism, education, exports, foreign remittances and travel sectors have taken a deep decline since the onset of COVID- 19. COVID-19 has worsened the effects of poverty and up to three million people could fall into poverty particularly in urban areas. This is according to the World Bank.

The Securities Exchange has had no significant shifts over the last year. At the same time, the Central Bank Rate was revised downwards to 9% due to the COVID-19 effects on the economy.

Economic prospects are high in areas of technology, agro business and construction. The financial sector is growing especially FINTECH. Construction and agro business are on the rise. The main export product, coffee is growing. The fishing industry is the new exciting venture in agriculture.
A midstream phase in the oil and gas industry is on the verge of breaking through to spark off a new wave of infrastructure developments including a new international airport.

Technological

Modern telecommunication systems are available, including fibre optic telecommunication and Internet. The strongest competition from the telecom sector is the penetration of the mobile banking services.

Modern technology, such as SWIFT, is available to facilitate the international payment system.

ATMs are currently in operation with most commercial banks now subscribing to Interswitch. Online services like mobile banking, e-trade and commerce are becoming trendier in urban markets. Year after year there is greater demand for services being brought closer to customers as they come to appreciate the convenience more and more through Agent Banking.

Approximately 42% of the population have access to the internet as at May 2020. This is according to reports obtained from Uganda Communications Commission.

3. https://www.theeastafrican.co.ke/tea/business/uganda-leads-in-ratio-of-women-doing-business

BANKING INDUSTRY OUTLOOK
FOR UGANDA FOR 2021

- ↑ Digitization
- ↑ Cyber crime
- ↑ Domestic Demand
- ↓ Supply chains

On April 6, 2020, the Bank of Uganda granted exceptional permission to Supervised Financial Institutions (SFIs) to restructure loans of corporate and individual customers, including a moratorium on loan repayment for borrowers that have been affected by the pandemic, on a case by case basis at the discretion of the commercial banks. The total loans granted credit relief in April, May, June and July amounted to Shs5.9 trillion.

Based on the 2020 banking experiences and the insights so far given by finance experts, the year 2021 will see an increase in digitization of banking operations. Customers will prefer more off site service as a way of social distancing.

This development may also come with increased risk of cybercrime.

With the uncertainty presented by the COVID-19 pandemic, customers appreciated the need to save and insurance. It is predicted that more customers will shift towards more saving and investment banking options, bancassurance may grow with more customers getting health and life policies for continuity.

With limited private sector lending registered in 2020, banks resorted to lending to government through treasury bills and bonds. The 2021-2022 period may witness an improvement in investment spending given the resumption of business and the onset of mass vaccination program against COVID- 19.

Our Economy will likely see a sharper rebound in domestic demand once the COVID-19 vaccine has widely been administered, and as consumer sentiment improves and social distancing is phased out. Private investment is also likely to increase, COVID-19 has brought a renewed focus on supply chain concentration risks. Companies are likely to continue to accelerate the shortening and simplifying of supply chains.

BUSINESS MODEL

The year 2020 saw the banking industry have to deal with challenges brought about by economic uncertainty, new regulations, an onslaught of competition and an erosion of trust.

To bring these three pillars to life, the bank is relying on specific inputs of:

- Innovation, Research and Data Analysis – Banking on the insights that have been derived out of research on customer behaviors, industry trends and patterns, the Bank seeks to innovate products and services that can address the customers' needs at all levels of engagement. With the customer data that we keep building, mining it will reveal opportunities for growth through up selling and cross selling.
- Building exceptional Customer experience, Loyalty and Brand Identity-
- Policy analysis, Review and Implementation
- Drive the Women Agenda
- Human Capital Development.

As consumers' adoption of the new digital lifestyle has gained momentum, it has disrupted businesses in every industry, introduced new competition, and redefined ecosystems. People no longer view banking as a place to go but expect their financial institutions to know them, look out for them and reward them in real-time, using the channel they prefer. With managing reputational risk and meeting regulatory compliance and reporting standards being the top two strategic priorities, the key growth agendas on the list of Finance Trust Bank for the next three years are investing in new customer-facing technology and using data for prompt and quality decision making to ensure steady growth for all stakeholders.

We want to focus our business models around the consumer's digital lifestyle so that we can realize great value from the digital opportunities.

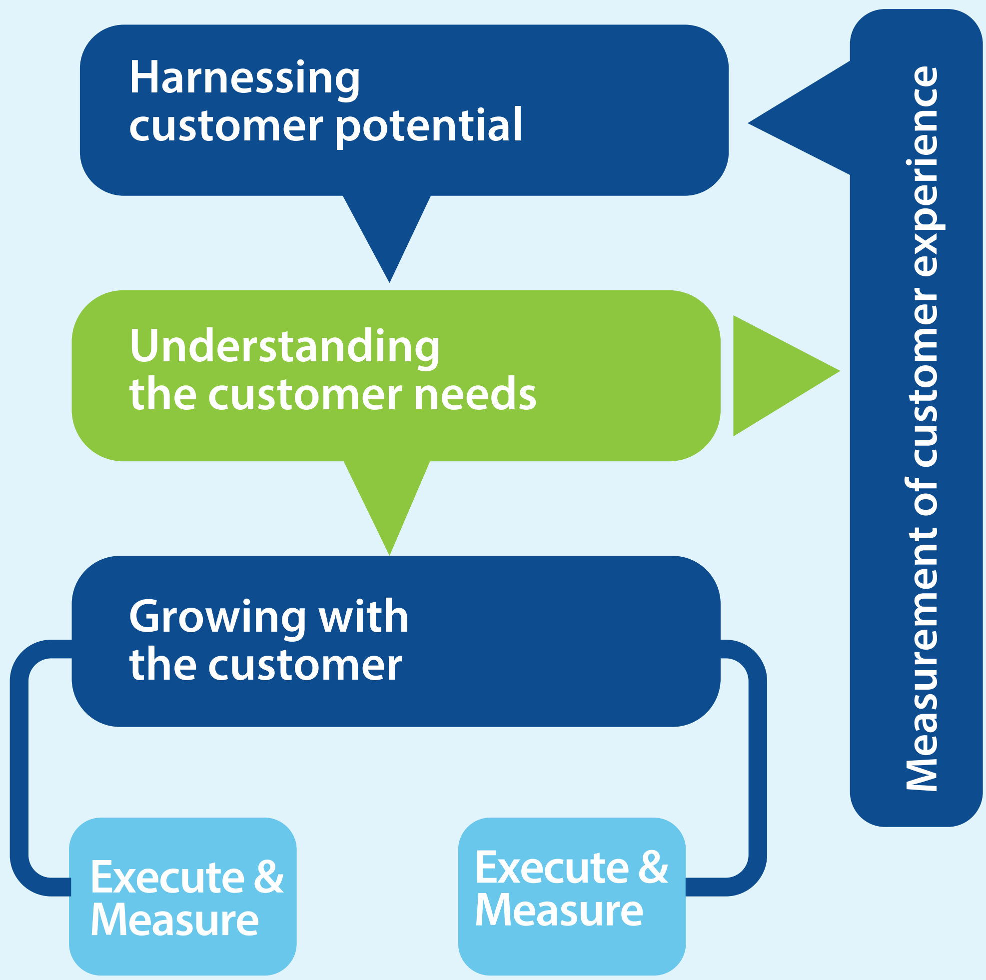
In doing so we recognize that Finance Trust Bank must innovate to optimize our business so we can be more efficient while also meeting the needs of the regulator. We intend to start this digital customer experience strategy from the inside-out of the bank to make Finance Trust Bank part of the customer's future.

In this post COVID-19 era where the competition lies in not just deposits but the whole customer as a unit, the bank's strategy is to ensure a wholesome customer engagement and better experience for retention and growth.

Thus, the strategy for the next two years is to invest in the personnel, support systems and communication process that will allow all our staff to have the continued dialogue they need to build long-term, profitable customer relationships and to become champions of the true customer-centric HUG concept within the entire bank.

"In this post COVID-19 era where the competition lies in not just deposits but the whole customer as a unit, the bank's strategy is to ensure a wholesome customer engagement and better experience for retention and growth."

The FTB HUG interactive with customer experience



Wholesale Banking

The bank's wholesale banking portfolio was adversely affected by the COVID 19 pandemic lockdown, with no capitation funds disbursed on local government accounts, SME loan portfolio dwindling and institutions especially school accounts coming to a standstill.

However, our customer engagements continued to support the relationships through webinars and corporate social responsibility as was the case in Lwengo district where a consignment of furniture for the new council hall was handed over to the district leadership in the August 2020.

With the resumption of the school calendar in October 2020, the institutions portfolio gained some volume. SME Loans suffered a contraction and a big size of if the portfolio was under moratorium.

The Bank has consolidated its Customer Relationship Management (CRM) program with concentration on corporate and institutional bankers. This has worked to stabilize and grow deposits and loans within the managed customers and this will continue as a key strategy for business growth

We are further still focused on delivering sustainable growth for this segment of customers by leveraging our product mix to facilitate trade. We have grown our capacity to offer trade financing products, hence enriching our value proposition to the SME market segment.

How we generate income

We earn net interest on the margin for loans and deposit products, commission fees, trading income from providing risk management in financial markets.

In terms of delivering shareholder value, the Bank continues to focus on diversifying its revenue base through catalyzing its Treasury operations as one of the avenues. On the money-market front the year 2020 called for increased turnover as liquidity surpluses were largely short-term in nature due to the tough economic environment. In terms of the forex business, the Bank fully supported its clientele base having actively traded throughout the year 2020. As a result, the Bank was able to realize its target revenues for the year in the midst of constrained liquidity coupled with contracted economic activity.

Retail Banking

The Bank registered growth in the retail banking deposit portfolio, which was mainly attributed to the roll out of the Emyooga Government program that targeted micro saving groups. A Groups portfolio accounted for 11.1% of the total deposits. There was an emphasis of encouraging women to save and borrow. This saw the gender index grow by 1.3% in favor of women customers.

The Bank has scaled up the Direct Sales Officer (DSO) model that has contributed immensely to client mobilization, mainly focusing on savings deposits. The Bank was able to onboard over 50,000 new accounts with a DSO work force of 135 young men and women. With the registered milestone, the Bank plans to graduate the DSO model to a higher scale as part of the strategy to bolster client numbers.

What makes us different?

We support companies across the country, from micro, to small and medium-sized enterprises, local government and non- governmental agencies both digitally and in person. We work with small businesses and individuals, household to medium-net-worth individuals, both digitally and in person at branch level, including regional offices and head office level support.

We are evolving and creating differential treatment through customer focus, risk management, our value proposition and customer engagement.

We have managed to actively engage our new customers during the onboarding process using the Call Center facilities. This has greatly built referral business. We are promoting a risk sensitive culture through awareness programs to staff, hence improving the quality of our loan book.

Our value proposition is to provide a well synchronized customer journey plan that meets the customers' needs. Our focus is to build long-term relationships through trusted advice, expertise and best industry practices.

The Bank is now able to engage the customers face to face through our branch network and online through the call center and the social media pages to foster discussions, get feedback and provide solutions; faster.

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OUR PRODUCTS AND SERVICES

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

Wealth Management
- Investments
- bancansurance

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

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

The future lies in Digitization

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

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

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

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

> "We have created multiple engagement channels for strengthening our relationships and also been a part of the struggle to fight the spread of the COVID-19 virus through dissemination of messages"

The inputs that we rely on

Human Capital

We have a strong work force of over 750 permanent staff and 300 commission or contract workers spread across the branches. The staff go through an elaborate orientation program and are also inculcated with the values of the HUG-high performance culture to spur their work ethics and commitment to meet expectations.

ICT

Our ICT environment is proving to be a robust platform for us to deliver innovative products with convenience in a secure and reliable format. We have customized financial technology applications that are fostering our journey to a highly digitalized banking experience for our customers as is the trend in the industry.

Strong Brand

The bank enjoys a strong brand equity. This can be supported by the interest that the job alerts attracts on the website and on social media pages. The brand is warm and positively perceived. This creates a very big opportunity to strengthen our position in the market.

Branch Network

The Bank has 35 branches with dominance in locations such as Gomba where we are a monopoly. Our aim is to reach out to bankable rural and peri- urban populations and offer competitive service and value proposition that is unmatched.

Local expertise

Having staff that know the local areas and the dynamics therein has been very advantageous, because we are able to provide localized service, speak the local language and blend in with the cultures thus easily identifying with the communities.

Financial stability

The Bank is rated as satisfactory with a solid financial basis. This gives both the staff and the customers a lot of confidence.

The value created for stakeholders

Engagement with our stakeholders, regardless of whether in physical or virtual form, continues to enhance Management's understanding of how the Bank is operating across our different branches, how the strategy is cascading, as well as the changing nature of the business and the banking sector at large. Through virtual meetings we are able to conduct remote stakeholder engagements at different levels.

Customers

Customers are at the heart of everything we do. By building and fostering long-term relationships we can better understand our customers' needs, and find tailored solutions to help them achieve their goals.

We have been able to maintain an attractive product mix, offered concessions such as waivers off ATM transactions and restructured loans for all those that applied. We have created multiple engagement channels for strengthening our relationships and also been a part of the struggle to fight the spread of the COVID-19 virus through dissemination of messages and adhering to the standard operating procedures prescribed by Ministry of Health.

Suppliers

We work with a set of pre-qualified suppliers to ensure they can provide the right goods and services for our business, in an efficient and sustainable manner. We align our suppliers to uphold the Bank's on ethics, anti-bribery and corruption, human rights, inclusion and environmental performance. We continue to support our suppliers through the pandemic by paying invoices from small and medium-sized suppliers within 30 days upon receipt. However, special considerations were made on request and honored to manage the financial stress brought on by the pandemic and for relationship management by some key suppliers. Our payment processes for all our suppliers are streamlined and ensure that at least 50 per cent of invoices paid on time. This performance is bound to improve in 2021.

Unique contracts such as Sybil's contract for maintenance of our Blade Servers, CIC Insurance for the Banker's Blanket insurance policy, CopyCat Ltd for the supply of money sorting machines had Service Level Agreements (SLAs) embedded to streamline expected delivery and rebates on downtime. With the introduction of the EFRIS invoice system by Uganda Revenue Authority (URA), we have stressed the importance of compliance by our service providers in order to keep the good tax record of the Bank intact.

Employees

We recognize that our workforce is a significant source of value that helps our performance and productivity. We continue to provide a continuous learning environment through orientation, refresher group trainings both in person and virtually on product knowledge, operation systems and also encourage staff to undertake professional courses for career growth. We give opportunities for growth through promotions on merit. By engaging employees and fostering a positive experience for them, we can better serve our customers and deliver on our purpose. The inclusive culture that we are implementing through HUG enables us to unlock innovation, make better decisions and to deliver our business strategy. The onset of the COVID-19 in 2020 provided an opportunity to test flexibility, redefining our work space and this accelerated our appreciation and planning for the future of work trends.

Our Commitment was and still is to preserve the human capital of the bank-first. The members of staff were equipped with knowledge on how to prevent the spread of the COVID-19 virus.

• The front line officers at the branches were equipped with protective face and hand wear, with enforcement of the Standard Operating Procedures for all customers accessing banking halls being effected. These measures greatly contributed to the bank's health compliance status during the pandemic lockdown period and beyond.

• The Bank carried out an in-house test and treatment campaign and supported affected staff to recover and blend back to work after recovery.

• New ways of dissemination of information and or training methodologies were birthed. The "new normal" introduced new ways of holding Staff engagement, customer engagements and meetings using online tools such as CISCO Webex, Microsoft Teams and Zoom platforms. The use of social media as a primary feedback took also became a new phenomenon. This was supported by the introduction of a Bank WhatsApp number for instant customer support through the Call Centre.

• The Bank made concessions such as waiving transaction fees on ATM transactions and Mobile banking. The adaptation mechanism saw an increase in mobile banking transactions, with 95% of enrolled customers active on the mobile banking platform.

Albeit the measures highlighted above, the Bank suffered a loss of one staff officer; the late Shanubi Nakiyemba from Nakivubo branch who succumbed to the disease on 26th November 2020 and was buried on 27th November 2020 at her ancestral grounds in Bulopa, Kamuli district. The Bank ably supported the family through this painful process.

Government and the Regulator

We actively engage with government agencies and Bank of Uganda to share insights, develop best practice and ensure we function consistently. Our engagement also helps the financial system and the broader economy function effectively. We worked with the Regulator to manage our response to the pandemic, prudential regulation cyber security, financial crime and conduct.

We are committed to complying with legislation, rules and other regulatory requirements that apply in the regions we operate in. Our compliance with legal and regulatory frameworks ensures the Bank meets its obligations.

Our messaging to support GoU efforts in COVID-19 prevention awareness:

The Bank developed and disseminated messages via different platforms to create awareness both internally and outside the bank on the standard operation procedures issued to guard against community spread of the Covid-19 virus. The messages were displayed in and around the banking hall precinct and as a sign off on all email messages. The consciousness derived from these efforts created confidence amongst our customers and other stakeholders about the Bank's willingness to support Government efforts to fight the spread of COVID-19.

Directors and Shareholders

We aim to deliver returns for our shareholders. We rely on capital from debt and equity shareholders to execute our business model. Through our regular reports, we provide our directors and shareholders with information about all aspects of progress against our strategic and financial frameworks.

We have delivered positive return on equity in 2020, weathering the geopolitical and health crises very well while continuing to progress our strategic transformation to deliver even better results for the year 2021.

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Our strategy

SUMMARY STRATEGY

Finance Trust Bank is mandated to carry on the business of a commercial banking (within the meaning of the Financial Institutions Act, No.2 of 2004, and Laws of Uganda) in all its branches and departments. Our Strategy is derived from our mission to;

"Efficiently deliver a range of highly competitive financial services to our customers especially women"

The Bank is working to implement a three year strategy 2020 -2022 with an emphasis of leveraging on technology, use of data analytics and enhancing our customers' (especially women) banking experience by living the HUG Culture. HUG essentially stands for Harnessing our Customer's potential, Understanding their needs and Growing with them. The Bank's Management Team continues to review the culture transformation progress across the branch network towards building a high performance, all inclusive, innovative culture underpinned by sustainability and conduct.

Strategic progress in 2020

Finance Trust Bank is engaged in lending as the principle revenue generating activity. The lending business is supported through borrowings & deposits and is also complemented by non-funded income from value added services. With the changing market demands, offering need based products and services has become a centre for competitive advantage in the banking industry and as such, the bank started a trade finance unit that is mandated to grow income from the trade products for both on-balance and off-balance sheet services; as one of the ways to diversify the income streams.

Delivery channels

The increased use of Mobile Internet saw FTB introducing Data plan purchase as a new transaction set on the Trust Mobile platform. Migration of the Trust Card to Chip and Pin, in readiness for EMV compliance has been done. We upgraded branches and improved the ambiance for Kampala Road and Kamwenge branches.

Accelerating growth in our most profitable markets

With the adaptation of data analytics into our operational framework, we have been able to up sell and cross sell bank products and services mainly amongst the wholesale bankers, particularly groups.

The expanded DSO model has led to the mass acquisition of new retail customers that we are converting into credit customers at a rate of 10-15% annually. This will be further accelerated with the roll out of the credit tele-selling model through the call centre starting in June 2021.

A new survey found that responses to COVID-19 have expedited the adoption of digital technologies by several years, and that many of these changes could be here for the long haul.

Usage of its digital platform

40%

in 2019 grow to

43%

in 2020

Incentivizing teams and investing in people

During the year 2020, the Bank recognized and rewarded outstanding performances by individuals on a monthly basis under the HUG cultural flag. Several officer were also promoted to new positions, thus motivating others to pursue a defined career plan.

Grow with Micro saving groups, SACCOs

The year was characterized by intense activities to onboard SACCO and VSLA accounts under the government program dubbed Emyooga. The Bank entered into a Memorandum of Understanding with the Microfinance Support Centre (MSC) to implement the program. The highest concentration of micro saving and SACCO accounts was registered in the Far East Region and greatly contributed to the expansion of the deposit volume.

Our growth strategy is hinged in partnership engagement with MSC and also providing financial literacy trainings to the groups and SACCO leadership structures.

Managing productivity and strategies to increase productivity in 2021.

Every officer at the bank with emphasis on the credit officers and client relationship officers was tasked to sign a performance agreement on which their appraisals are to be based.

Equally, every contract employee (DSO) commits to deliver 100% on target.

To increase productivity in 2021, the Bank is rewarding performance based on Team Excellence under the HUG culture. This will spur group initiatives that will increase productivity that stands to be rewarded every month for outstanding performance.

To improve productivity of the credit team in 2021, more officers have been recruited and all officers are to be trained and provided all necessary tools of trade with a robust performance monitoring framework that is driven by high performance expectation.

Dealing with the disruptions brought about by COVID-19, Technology

A new survey found that responses to COVID-19 have expedited the adoption of digital technologies by several years, and that many of these changes could be here for the long haul.

Finance Trust Bank saw an increase in the usage of its digital platform from 40% in 2019 to 43% as at 31st Dec 2020.

The trend is envisaged to continue as Finance Trust Bank continues its digitization journal i.e. remote account opening and customer onboarding, addition of more Value Added Services on its different Digital transaction platforms etc.

Insert Figurative reporting on progress on the key business sectors and finance ratios e.g. Income before tax, portfolio volumes, digital adoption.

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CONSOLIDATING
OUR POSITION

The bank has maintained a steady growth in the different segments in growing the deposit and loan portfolios. The focus on growing the number of women accessing and consuming the bank products and services has also continued to grow.

By end of December 2020, the Finance Trust Bank loan book closed at Ushs201.09bn, 13.89% above the planned Ushs176.56bn.

Between April 2020 and December 2020, loans granted credit relief in form of loan restructuring was to a tune of Ushs68.47bn this means that 34% of the gross loans benefited from the credit relief program since April 2020. As at close of December 2020, the stock of loans that were still under restructuring was Ush49.15bn returning 24.4% of the gross loan book.

In growing the deposit volumes, in 2020, the number of female customers grew by 1.2%. The male still dominate the volume of deposits with 32% as opposed to the deposits by females that was established to be at 25%. The tables below give a clear summary of distribution by size of deposits and number of customers for the different segments:

A summary of the loan book composition for the year 2020 shows that the SME segment accounted for 32.89% of the total portfolio, micro saving groups/SACCOS stood at 0.071% while the consumer loans accounted for 20.11% the loan book. Corporate and Institutions covered 7.08%

In regard to gender, women were traced to have consumed 25.88% of the total loan Portfolio, a position that still eludes the target of 30%.

Women consumed **25.88%** of loan portfolio

People and culture

At the beginning of 2020, the bank started on a journey of cultural transformation with the main focus being; "creating a high performance culture". With the help of Coach Phillip Kambe, a Business Management consultant, all staff went through a series of trainings that were crowned with the launch of the HUG Culture. This is unpacked as Harnessing Customers' Potential, Understanding Customers' needs and Growing with the Customers. The three pillars of Harnessing, Understanding and Growing coined the HUG. All employees were made aware of the need to have measureable performance indicators. Throughout the year 2020, members of staff who consistently exhibited high performance were rewarded. The HUG culture continues to evolve with the theme for 2021 being; Team Excellence.

Employee health and safety

In response to the Covid -19 pandemic breakout, the Bank emphasized and implemented standard Operating procedures to ensure the safety of the staff from infection of the Corona Virus while on duty. Priority was to save lives by preventing or controlling the spread of COVID 19 among the staff population. Several bank activities had to be adjusted accordingly. This included adjusting working hours for staff, relocating some staff at head office to more spacious branch offices and creating awareness through e-mailers for self-preservation.

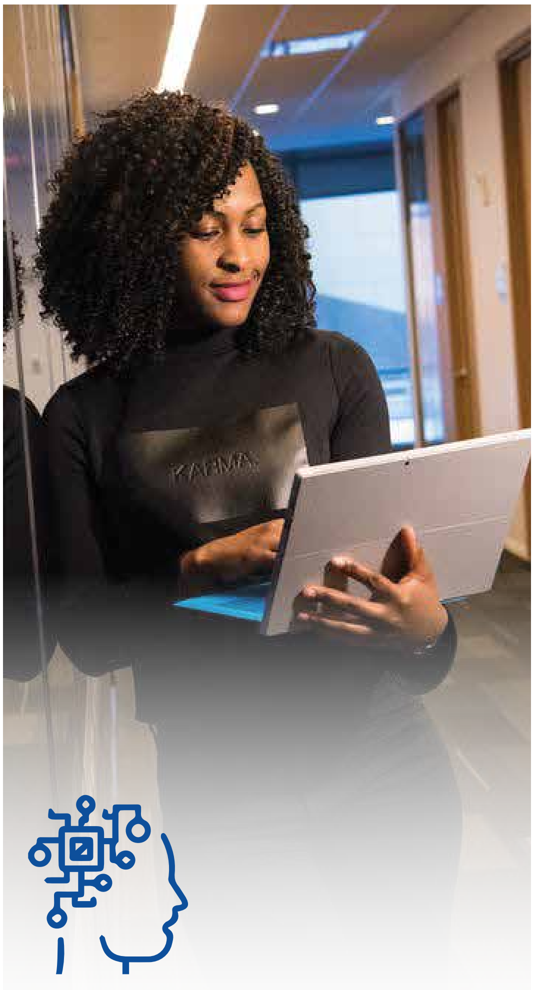
Performance Management

With the onset of implementing the HUG culture amidst the COVID-19 pandemic challenges, staff were focused from the start by setting targets and endorsement or performance agreements. Performance was regularly monitored at all levels as the Bank moved to inculcate a high performance culture. Virtual, largely instructor led, refresher trainings provided a stable foundation for staff to maximize their potential. The staff promptly addressed the challenges created by the lockdown effects as they posted good results at the year end.

Training & Development

Training programs ensure that all the staff are well positioned to perform their duties. Regularly identifying individual learning needs enables development and offering of customized trainings. New staff are given a comprehensive package covering the Bank's culture, vision, mission, values, strategic objectives and the different operational policies before they are attached to mentors for hands on training. This year introduced a shift from class room training to virtual instructor led trainings as the Bank implemented the standard operating procedures on COVID-19. Cultural transformation training covered at the beginning of the year set a foundation for a high performance culture that has been embraced by all staff.

Enabling a future of working with disruptions



Innovation and recognition

The Bank has continuously recognized and rewarded all star performers at all levels across the network. An engaged employee wants to feel valued for their relative contribution to the Bank's business. The Bank has maintained payment of incentives, bonuses, competitive remuneration alongside promoting star performers as and when the opportunity arises.

INNOVATIONS THAT LAST

Michael Byangwa, the ICT craftsman

To give a certain level of assurance in information security, the Bank's ICT department strives to meet the main principles of security which include, Confidentiality, Integrity and Availability. As the bank applies certain technologies and mechanisms which include and not limited to authentication, Access Control, Firewalls, Backups, Encryption, Security Policies and Physical Security. With the multiple products and services offered, the Bank has various information systems deployed to support the banking services and these must be available to authorized personnel at all times.

By the start of 2020, the bank was experiencing some system failures an indication that there was something wrong with the technology being used and a deeper analysis became a priority for the ICT Team.

Michael Byangwa, who was then a Supervisor Cyber Security, was also acting as the Manager for ICT infrastructure at that time. He had an idea on what steps needed to be taken to rectify the problem and have a more stable ICT infrastructure to support the business.

He proceeded to conduct the much needed analysis of the system and during the process, he realized that the enterprise was running out of storage, a year after acquisition and deployment of a new netapp storage. This was a very short span for the space to have been fully utilized. Something was out of place. He dedicated his time to conducting deeper analysis to establish the true position on utilization of the storage and memory.

"After close analysis, it was evident that there were some misalignments at virtual application level (VMware) level and storage level (NetApp and EMC) coupled with misallocation of resources". Michael recalls, of the conclusions made out of the technical analysis.

He needed to find a solution; and find it fast. He either had to redo the configurations and create some more storage space in the short run or advise the Bank to buy more storage space to recover fully in the long run. The latter option required a lengthy acquisition process and was very expensive a venture for the Bank to embark on given the uncertainty created by the COVID-19 pandemic.

Michael quickly came up with a plan to resize the Virtual Machines (VMs) while giving those correct configurations to recreate storage space and memory. This was a process he had to undertake outside the live operating system that the bank uses during the working hours. He had to work through the night for weeks to achieve this. He was given the necessary approval to try out the proposed solution and he gave this opportunity his all; he had a point to prove.

"I knew what the exercise called for and what support I needed from the Service Provider. I was actually more focused on proving that the innovation I had in mind, was the right solution. I was prepared for the sleepless nights. I actually lost weight in the process" Michael chips.

He embarked on the task, starting with the Head Office Data center and later moved to the Data Recovery Site data center. The Head Office Clean up exercise commenced in late August 2020 and was concluded shortly; under four weeks.

This activity that started as an experiment turned out to be a valuable innovation that created space enough to last the Bank a couple of years and also saved the bank a tremendous amount of money that would have been spent on purchasing new storage and computing systems. In the process, underlying technology like de-duplication, storage protection was enabled alongside other updates that enabled overall system stability and efficiency.

Michael derives his satisfaction from the fact that his innovation created a much better and stable technology environment for everybody at the bank while knowing that the ICT team can now concentrate on advancing technology to improve business.
Michael's efforts also earned him an executive mention and that was another moment of satisfaction.

He has also been able to develop capacity within the ICT Department for the team to circumvent such challenges in the future.

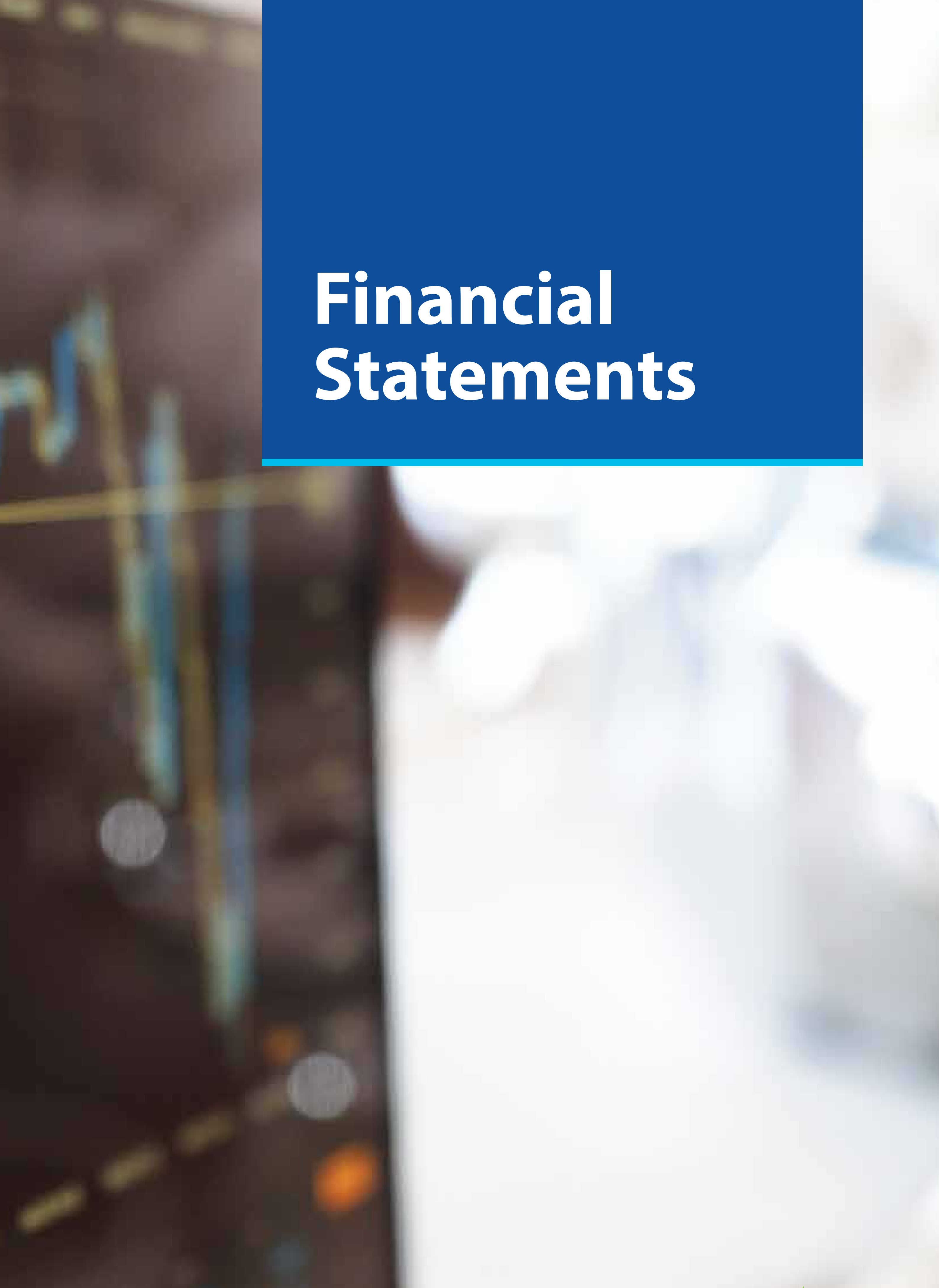
Such humility!

Withdraw, Deposit or pay bills from any trust agent near you

Enhancements were made to the Agent banking platform to enable school fees payments with bank slips and the introduction of card less withdrawals at Agent locations.


Bid
Ask
GBPUSD M15
1.00
SL/TP

Financial Statements



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HEAD OF FINANCE'S REVIEW

Head-Finance
Christine Namata

Deposits grew by
32%
from shs
153.9bn to shs
203bn

Total assets grew by
26%
from shs
258bn to shs
325bn

The financial statements of the Bank give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and of the Bank's profit for the year then ended. The Finance Trust Bank financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the International Financial Reporting Standards (IFRS), Companies Act of Uganda and Financial Institutions Act 2004 (as amended 2016) laws of Uganda.

The financial statements were approved and authorized for issue by the Board of Directors on 23rd March 2021.

Summary of financial performance

The year was unique in many ways. The COVID-19 pandemic affected the economy and business activities in the country and this triggered an economic decline. But this did not deter growth of the Bank's assets and liabilities.

Credit related income continues to be the Bank's major cash cow contributing the largest percentage of the comprehensive income of the bank.

The bank experienced higher administration costs mainly brought about by the changing operational dynamics due to the COVID-19 pandemic. This was the same case for communication and technology costs.

The Bank's total assets grew by 26% from Shs258.5bn to UGX325.0bn. Deposits grew by 32% from UGX153.8bn to UGX203.4bn. As at 31 December 2020, the Bank's loans and advances to customers amounted to UGX203 billion, representing 63% of total assets, with total expected credit loss ("ECL") allowances of UGX4.6 billion recognized. Shareholders' equity went up by 13% from UGX46.2bn to UGX52.1bn.

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TABLE OF CONTENTS

DIRECTORS

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

Dr. Evelyn Kigozi Kahiigi*	Chairperson
Mrs Annet Nakawunde Mulindwa*	Managing Director
Mrs. Annette Kiggundu Nansubuga*	Executive Director
Mrs. Grace Namulinda Aliakai*	Non-Executive Director
Mr. Kirunda Robert*	Non-Executive Director
Mrs. Mary Achan Oduka Ochan*	Non-Executive Director
Mr. Jean-Louis de Montesquiou****	Non-Executive Director
Mr. Tor G. Gull **	Non-Executive Director
Mr. Loic De Cannie're*****	Non-Executive Director
Mrs. Lydia Koros***	Non-Executive Director
Mr. Jeremy Hadjdenberg****	Non-Executive Director – Alternate to Mr. Jean-Louis de Montesquiou
Mr. David Ssenoga*	Non-Executive Director – Alternate to Mr. Tor G. Gull
Dr. Albert Richard Otete*	Non-Executive Director
Mr. Kevin Kamemba***	Non-Executive Director – Alternate to Loic De Cannie're
Mr. Gervase Ndyanabo*	Non-Executive Director – Effective 11th February 2020

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

Company Secretary

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

Auditors

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

Registered Office

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

BRANCHES

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

BANKERS

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

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

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

BANK'S SOLICITORS

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

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

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

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

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

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

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

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

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

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

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

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of Finance Trust Bank Limited ("the Bank"). The financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act, 2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended in 2016) laws of Uganda
.

Principal activities

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

Results and dividend

The profit for the year of Shs5,834 million (2019: Shs6,110 million) has been taken to retained earnings. The directors did not recommend payment of dividends for the year ended 31 December 2020 (2019: Shs1,222 Million).

Directors

The current members of the board are shown on Page 36.

Corporate governance

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

Board of directors

The Bank has a broad-based board of directors. As at 31 December 2020, the Board of Directors consisted of 11 members. The board functions as a full board and through various committees constituted to oversee specific operational areas. The board has constituted five committees. These are the Assets and Liabilities Committee, Audit Committee, Risk Committee, Credit Committee and Compensation Committee. All board committees are constituted and chaired by non-executive directors. The membership on these committees at 31 December 2020 was as follows:

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

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

Shareholder exit transaction

The Bank concluded the due diligence exercise; a potential investor was identified to buy shares of exiting shareholders and are undergoing the fit and proper exercise by BOU.

External auditor

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

Approval of financial statements

The financial Statements were approved and authorised for issue by the Board of Directors on 26th March 2021

By order of the Board

....

Company Secretary

Date: 27th April 2021

STATEMENT OF
DIRECTORS' RESPONSIBILITIES

The Bank's directors are responsible for the preparation and fair presentation of financial statements for Finance Trust Bank Uganda Limited ("the Bank") set out on pages 36 to 94, comprising the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, the Companies Act of Uganda, and the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda.

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

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

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

Approval of the financial statements

The financial statements of Finance Trust Bank Uganda Limited, were approved and authorised for issue by the Board of Directors on 26th March 2021.

……………………..……………..………………..
Chairperson
Date: 27th April 2021

……………..………………..……………
Director

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Finance Trust Bank Limited ("the Bank"), set out on pages 36 to 94 which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Finance Trust Bank Limited as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by, the Companies Act, 2012 Laws of Uganda and the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda.

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

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Impairment of loans and advances to customers **Refer to Notes 4(d), 6(a), 19 (a) and 19 (b)** Impairment of loans and advances to customers is based on the expected credit loss and is considered a key audit matter because the directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. The COVID-19 pandemic is affecting the economy and business activities in the country and may trigger an economic decline. To mitigate the impacts of COVID-19, the Central Bank launched aid initiatives for customers, implementing various measures such as, according penalty-free moratoria and making financing and liquidity facilities more flexible. All of these aspects have an impact on the parameters considered by the Bank when quantifying the expected credit loss on financial assets (macroeconomic variables, customers' net income, value of pledged collateral, probability of default, etc.) As at 31 December 2020, the Bank's loans and advances to customers amounted to Shs 203 billion, representing 63% of total assets, with total expected credit loss ("ECL") allowances of Shs 3.8 billion recognized.	**Our audit procedures in this area included:** • Performing end to end process walkthroughs to identify and assess the design and implementation and the operating effectiveness of key controls used in the system applications and controls in the ECL processes. • Selecting a sample of facilities from the Bank's loan book including borrowers from the economic sectors most affected by COVID-19 and carrying and evaluating whether facilities sampled are correctly staged/classified and valued in accordance with on IFRS 9 considering the bank's definition of significant increase in credit risk and default. • Evaluating the appropriateness of the Bank's ECL impairment methodologies by involving our internal financial risk modelling specialists to benchmark them with the requirements of IFRS 9. • Challenging the appropriateness of the assumptions used in modelling the probability of default, loss given default and exposure at default by benchmarking them against the local economic/portfolio factors for consistency. • Obtaining on a sample basis the key inputs used in the ECL calculations to macro economic forecasts, PD, LGD and EAD by agreeing the key inputs to source documentation and involving our specialist to reperform the PDs and economic forecasts.

Report on the Audit of the Financial Statements (Continued)

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

Other Information

The directors are responsible for the other information. The other information comprises the Finance Trust Bank Limited Annual Report and Financial Statements for the year ended 31 December 2020 but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of Directors for the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

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

CPA Stephen Ineget

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	2020 Shs 000	2019 Shs 000
Interest income	7	53,376,077	44,279,085
Interest expense	8	(13,297,765)	(9,978,929)
Net interest income		**40,078,312**	**34,300,156**
Fees and commission income	9	19,916,423	20,147,402
Other operating income	11	1,523,008	1,497,601
Net foreign exchange gains	10	407,346	158,749
Total operating income		**61,925,089**	**56,103,908**
Impairment losses on financial assets	19 (b)	(4,606,463)	(686,527)
Personnel Expenses	13	(28,709,100)	(27,076,724)
Depreciation & Amortization	12	(5,107,985)	(4,773,335)
Other operating expenses	12	(15,085,982)	(14,850,264)
Profit before income tax		**8,415,559**	**8,717,058**
Income tax expense	14	(2,581,540)	(2,607,523)
Profit for the year		**5,834,019**	**6,109,535**
Other comprehensive income		-	-
Total comprehensive income for the year		**5,834,019**	**6,109,535**
Earnings per share - basic and diluted (Shs per share)	33	**0.210**	**0.220**

The notes set out on pages 48 - 94 form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER 2020

Assets	NOTE	2020 Shs 000	2019 Shs 000
Cash and balances with Bank of Uganda	15	41,576,562	35,016,468
Deposits and placements with other Banks	16	41,290,404	34,756,929
Government securities	17	10,130,072	6,975,297
Net loans and advances to customers	19(a)	203,169,989	153,975,205
Other assets	18	5,365,350	5,033,316
Current income tax recoverable	14	13,760	26,836
Deferred income tax asset	26	134,862	-
Property and equipment	20	8,326,043	9,301,761
Right of Use asset	32 (a)(i)	12,727,156	10,838,683
Intangible assets	21	2,313,547	2,609,177
TOTAL ASSETS		**325,047,745**	**258,533,672**

STATEMENT OF EQUITY AND LIABILITIES

Liabilities	NOTE	2020 Shs 000	2019 Shs 000
Customer deposits	22	203,361,117	153,838,925
Deposits and balances due to other banking institutions	23	30,135,355	25,365,831
Borrowings	24	14,433,185	13,007,355
Lease liability	32 (ii)	13,039,571	10,716,224
Deferred tax Liability	26	-	401,077
Other liabilities	25	12,013,855	8,973,617
TOTAL LIABILITIES		**272,983,083**	**212,303,029**
Equity			
Share capital	27	27,785,402	27,785,402
Regulatory credit risk reserve	19 (c)	1,861,461	1,654,570
Retained earnings	31	21,195,893	15,568,765
Proposed dividends	36	1,221,906	1,221,906
TOTAL EQUITY		**52,064,662**	**46,230,643**
TOTAL LIABILITIES AND EQUITY		**325,047,745**	**258,533,672**

The financial statements on pages 36 - 94 were approved for issue by the Board of Directors on 26th March 2021 and signed on its behalf by:

Chairperson, Board of Directors

Director

Managing Director

Company Secretary

The notes set out on pages 48 to 94 form an integral part of the financial statements.

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

	Notes	Share capital Shs 000	Regulatory reserve Shs 000	Retained earnings Shs 000	Proposed dividends Shs 000	Available for sale revaluation reserve Shs 000	Total Shs 000
Year ended 31 December 2020							
At 1 January 2020		**27,785,402**	**1,654,570**	**15,568,765**	**1,221,906**	-	**46,230,643**
Comprehensive income:							
Profit for the year		-	-	5,834,019	-	-	5,834,019
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	5,834,019	-	-	5,834,019
		-		-	-	-	-
Transfer from regulatory reserve		-	206,891	(206,891)	-	-	-
					-	-	-
		-	-	-	-	-	-
At 31 December 2020		**27,785,402**	**1,861,461**	**21,195,893**	**1,221,906**	-	**52,064,662**
Year ended 31 December 2019							
At 1 January 2019		**27,785,402**	**103,311**	**12,232,395**	**1,754,560**	-	**41,875,668**
Comprehensive income:							
Profit for the year		-	-	6,109,535	-	-	6,109,535
Total comprehensive income		-	-	**6,109,535**	-	-	**6,109,535**
Transactions with owners:							
Transfer from regulatory reserve		-	1,551,259	(1,551,259)	-	-	-
Transfer of dividends payable to other liabilities					(37,247)		(37,247)
Dividends paid		-	-	-	(1,717,313)	-	(1,717,313)
Dividends proposed	36	-	-	(1,221,906)	1,221,906	-	-
At 31 December 2019		**27,785,402**	**1,654,570**	**15,568,765**	**1,221,906**	-	**46,230,643**

The accounting policies and notes on pages 48 - 94 form an integral part of these financial statements.

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 Shs 000	2019 Shs 000
Cash flows from operating activities			
Interest receipts		51,331,535	43,608,396
Interest payments on deposits		(9,470,446)	(6,424,475)
Interest expense on borrowings		(1,788,289)	(2,160,201)
Interest expense on leases		(1,356,079)	(1,094,285)
Amortisation of operating grants		(209,725)	(503,965)
Net fee and commission receipts		20,982,392	20,346,271
Other income received		782,831	448,559
Recoveries from loans previously written off		1,001,270	1,027,525
Payments to employees and suppliers		(46,789,105)	(43,834,027)
Income tax paid		(2,988,657)	(2,644,321)
Cash flows from operating activities before changes in operating assets and liabilities		**11,495,727**	**8,769,477**
Changes in operating assets and liabilities:			
— loans and advances		(49,194,785)	(31,272,787)
— other assets		(332,033)	(244,381)
— operating lease prepayments		-	1,252,605
— customer deposits		49,522,193	29,505,720
— deposits due to other banks		4,769,524	9,974,528
— other liabilities		3,040,238	437,814
— government securities maturing beyond 90 days		(7,822,212)	12,006,930
Net cash generated from operating activities		**11,478,652**	**30,429,906**
Cash flows from investing activities			
Increase in placements with other banks		(5,279,511)	(19,540,191)
Purchase of property and equipment		(1,980,071)	(3,150,537)
Purchase of intangible assets		(242,939)	(559,089)
Proceeds from sale of property and equipment		93,243	48,414
Net cash utilized in investing activities		**(7,409,278)**	**(23,201,403)**
Cash flows from financing activities			
Receipts for borrowings		7,145,000	3,050,000
Repayments for borrowings		(5,717,356)	(5,371,023)
Lease payments		(1,986,595)	(1,530,293)
Receipts for operating grants		269,538	476,038
Dividends paid to shareholders		-	(1,717,313)
Net cash utilized from financing activities		**(289,413)**	**(5,092,591)**
Net increase in cash and cash equivalents		3,785,611	2,138,603
Effect of exchange rate fluctuation on cash and cash equivalent held		(5,650)	(2,691)
Cash and cash equivalents at start of year		40,690,888	38,554,976
Cash and cash equivalents at end of year	**31**	**44,470,849**	**40,690,888**

The accounting policies and notes on pages 48 - 94 form an integral part of these financial statements.

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

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

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

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

2. Basis of Accounting and Measurement
The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRS). They were authorised for issue by the Bank's board of directors on 26th March 2021. Details of the Bank's accounting policies are included in Note 4 and5.

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

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

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

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

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

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

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

Assumptions and estimation of uncertainties
Information about assumptions and estimation of uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in the following notes.

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

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

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

Note 32: recognition of leases

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

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

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

(b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

(c) Fees and commission income

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

(d) Financial assets and liabilities

(i) Classification and measurement of financial instruments

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

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

Amortised cost

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

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

The Bank recognises cash 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 2020, the Bank did not have financial assets measured at FVOCI

Fair Value through Profit or Loss (FVTPL)

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

As at 31 December 2020, the Bank did not have any financial assets classified at FVTPL.

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

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

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

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

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

In making the assessment, the Bank has considered;

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

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

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

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

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

Business Model assessment

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

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

Financial liabilities

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

Reclassification

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

Modification and de-recognition

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

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

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

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

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

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

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

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

Write-off

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

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

Interest income recognition

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

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

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

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

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

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

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

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

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

(ii) Impairment – financial assets, loan commitments and financial guarantee contracts
IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model applies to the following financial instruments that are not measured at FVPL:

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

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

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

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

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

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

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

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

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

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

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

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

Expected credit losses

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

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

The General Approach

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

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

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

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

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

Definition of default

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

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

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

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

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

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

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

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

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

Probability of default (PD)

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

Forward looking information (FLI)

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

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

- Recalibrating its macroeconomic analysis and the weighting for each scenario in line with the downward impact that the pandemic has beset on the Ugandan economy. The bank refreshed its Forward-Looking analysis to adopt recent macroeconomic data and based on expert judgement, provided a higher weighting for the downside scenario. This is informed by the expectation that the effects of the pandemic may spill over to 2021 and potentially impact the economy negatively.
- Assessing the recoverability from the various security classes in line with the depressed market prices and extended times to realization. The bank's management adopted a minimum Loss Given Default floor which is meant to cushion the bank from potentially inflated asset values and depressed actual property prices. The bank also reviewed the time to realize different collateral types in line with the current market experience.
- Applying a quantitative staging criteria to manage the upgrading of customer from Stage 3 to Stage 2 and finally Stage 1. The bank recognizes the importance of reliably assessing the curing process for defaulted accounts and observing customers for a reliable period of time before upgrading their stage especially during the pandemic period. This has helped to minimize potential variances in ECL outputs as customers migrate across the various stages.

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

Scenarios	weights	further downside
Base	10%	5%
Upside	10%	5%
Downside	80%	90%

A further downward scenario results in a 1.38% overall increase in total ECLs as illustrated below:

	Original scenario Shs 000	Further Downside scenario Shs 000
Stage 1	1,616,201	1,667,208
Stage 2	71,841	73,894
Stage 3	2,144,156	2,144,156
Total	**3,832,198**	**3,885,258**

The table below lists the macroeconomic assumptions used in the base, upside and downside scenarios over the five-year forecast period. The assumptions represent the absolute percentage for Goods and services exports, Nominal GDP and Private final consumption.

"The bank's management adopted a minimum Loss Given Default floor which is meant to cushion the bank from potentially inflated asset values and depressed actual property prices."

At 31 December 2020	Goods & Services Exports	Nominal GDP	Private Final Consumption
Base Projections			
5-year Average	14.13%	10.72%	10.18%
Peak*	21.11%	11.34%	10.77%
Upside Scenario			
5-year Average	22.34%	16.08%	16.23%
Peak*	29.32%	16.70%	16.82%
Downside Scenario			
5-year Average	-23.93%	-14.05%	- 17.67%
Trough*	-72.98%	-43.34%	-50.10%

At 31 December 2019	Goods & Services Imports	Inflation	Exchange Rate: UGX/USD
Base Projections			
5-year Average	-0.19%	4.88%	2.65%
Peak*	1.29%	5.75%	2.93%
Upside Scenario			
5-year Average	-100.19%	-95.12%	-97.35%
Peak*	-98.71%	-94.25%	-97.07%
Downside Scenario			
5-year Average	99.81%	104.88%	102.65%
Trough*	101.29%	105.75%	102.93%

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 Banks its Financial assets into 2 broad categories of Micro and SME. The SME portfolio includes commercial (Shs5m and above) & consumer facilities advanced in amounts while the micro loan portfolio includes all loans below Shs5m (excluding consumer loans).

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

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

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

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

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

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 2020 has been used to determine the LGD. The data has been segmented by product to capture the unique characteristics of each cohort.

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

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

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

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

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

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

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

(iii) Fair value measurement

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

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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

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

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

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

As at 31 December 2020, the Bank did not have any financial assets measured at fair value.

(e) Derivative financial instruments

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

(f) Offsetting

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

(g) Sale and repurchase agreements

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

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

(h) Impairment of non-financial assets

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

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

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

(i) Property and equipment

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

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

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

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

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

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

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

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

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

(j) Intangible assets

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

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

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

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

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

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

(k) Income tax

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

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

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

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

(l) Cash and cash equivalents

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

(m) Employee benefits

(i) Retirement benefit obligations

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

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

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

(ii) Other entitlements

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

(n) Customer deposits

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

(o) Borrowings

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

(p) Share capital

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

(q) Dividends

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

(r) Accounting for leases

(i) With the Bank as Lessee

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

(ii) With the Bank as lessor

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

(s) Acceptances and letters of credit

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

(t) Grants

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

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

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

Critical accounting estimates and judgements in applying accounting policies

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

(a) Deferred income tax asset/liability

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

Deferred tax is not recognised for:

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

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

[IAS 12.37] Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

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

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

In 2020, the Bank recognised deferred tax Asset of Shs134Million in respect of increase in deductible temporary differences. The deferred tax asset has been maintained in the balance sheet with an assumption that the bank will remain profitable against which the deductible temporary difference will be utilized.

(b) Measurement of expected credit loss allowance

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

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

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

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

Standards and Amendments issued

A number of new standards and amendments to standards were effective for annual periods beginning after 1 January 2020 and earlier application is permitted. All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

(i) New standards adopted by the bank

New amendments or interpretation effective for annual periods beginning on or after 1 January 2020 are summarized below:

New amendments or interpretation	Effective date
• Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
• Definition of a Business (Amendments to IFRS 3)	1 January 2020
• Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
• Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
• Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 January 2020

Amendments to References to Conceptual Framework in IFRS Standards

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

• a new chapter on measurement;
• guidance on reporting financial performance;
• improved definitions of an asset and a liability, and guidance supporting these definitions;
• updated recognition criteria for assets and liabilities; and
• clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which outlines the consequential amendments made to affected IFRS standards. This was done to support transition to the revised Conceptual Framework for companies that develop and apply accounting policies using the Conceptual Framework when no IFRS standard or interpretation applies to a particular transaction.

The revised Conceptual Framework will form the basis of new IFRS standards set by the IASB as well as future amendments to existing IFRS standards.

The adoption of these amendments did not have a significant impact on the financial statements of the Bank.

Definition of a Business (Amendments to IFRS 3)

Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

In October 2018 the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments:

• Confirm that a business must include inputs and a process and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs.
• Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
• Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The adoption of these amendments did not have a significant impact on the financial statements of the Bank.

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

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

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

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

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

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

The adoption of these amendments did not have a significant impact on the financial statements of the Bank.

Interest Rate Benchmark Reform-Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7)
Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

The adoption of these amendments did not have a significant impact on the financial statements of the Bank.

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)
Differing effective dates of IFRS 9 Financial Instruments and the new insurance contracts standard could have had a significant impact on insurers. In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, the International Accounting Standards Board (the Board) issued amendments to IFRS 4 Insurance Contracts in 2017 with an effective date of 1 January 2020.

The amendments introduced two options that could reduce the impacts but include various complexities as summarized as follows;

Temporary exemption from IFRS 9
• Rather than having to implement IFRS 9 in 2018, some companies are permitted to continue to apply IAS 39 Financial Instruments: Recognition and Measurement.
• To qualify, a reporting company's activities need to be predominantly connected with insurance.
Overlay approach
• This optional solution provides an overlay approach to presentation to alleviate temporary accounting mismatches and volatility.
• For designated financial assets, a company is permitted to reclassify between profit or loss and other comprehensive income (OCI), the difference between the amounts recognized in profit or loss under IFRS 9 and those that would have been reported under IAS 39.

On the issue of IFRS 17 (Revised) Insurance Contracts in June 2020, the end date for applying the two options under the IFRS 4 amendments was extended to 1 January 2023, aligned with the effective date of IFRS 17.

The adoption of these amendments did not have a significant impact on the financial statements of the Bank.

(ii) Standards issued but not yet effective
At the date of authorization of the financial statements of Finance Trust Bank Limited Uganda for the year ended 31 December 2020. All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity). The following Standards and Interpretations were in issue but not yet effective:

New amendments or interpretation	Effective for annual periods beginning or after
• Interest Rate Benchmark reform-Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
• Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
• Annual Improvements to IFRS Standards 2018–2020	1 January 2022
• Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
• Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
• Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
• IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
• COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28	Available for optional adoption/ effective date deferred indefinitely

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

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

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

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

Annual Improvements to IFRS Standards 2018-2020

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

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

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

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

Companies will therefore need to distinguish between:

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

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

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

Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendment has:

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

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

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

IFRS 17 Insurance Contracts (and its related amendments)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas:

• Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
• When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
• When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
• If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

Disclosure

The amendments will require the Bank to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

Transition

The Bank plans to apply the amendments from 1 January 2021. Application will not impact amounts reported for 2020 or prior periods because the Bank has no financial assets or financial liabilities indexed on the Libor.

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

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

The practical expedient will only apply if:

• the revised consideration is substantially the same or less than the original consideration;
• the reduction in lease payments relates to payments due on or before 30 June 2021; and
• no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose:

• that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
• the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

The adoption of these amendments is not expected to have a material impact on the financial statements of the Bank as the Bank has not had any lease concessions.

6. Financial risk management

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

Financial 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

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

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

(i) Credit risk measurement

Loans and advances (including commitments and guarantees)

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

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness. Review of the model was done during the year 2020 to address the effects of Covid-19.

Probability of default

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

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

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

(ii) Risk limit control and mitigation policies

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

(iii) Collateral

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

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

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

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

(iv) Credit related commitments

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

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

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

Credit risk exposures relating to on-balance sheet assets:

	2020 Shs 000	2019 Shs 000
Placements & deposits with other banks (Note 16)	41,290,404	34,756,929
Loans and advances to customers (Note 19 (a))	203,169,989	153,975,205
Government securities (Note 17(a))	10,130,072	6,975,297
Other assets (Note 18)	5,365,350	5,033,316
	259,955,815	**200,740,747**

Credit risk exposures relating to off-balance sheet items

	2020 Shs 000	2019 Shs 000
Guarantee and performance bonds	2,358,842	167,250
Commitments to lend	752,112	922,199
Total exposure	**263,066,769**	**201,830,196**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2020, 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, 77.23% of the total maximum exposure is derived from loans and advances to customers and 3.85% 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
- 6% of the loans and advances portfolio is past due but not impaired.

Loans and advances

	2020 Shs 000	2019 Shs 000
Neither past due nor impaired	186,697,670	146,399,876
Past due but not impaired	7,318,369	4,850,634
Impaired	12,986,148	4,450,015
Gross	**207,002,187**	**155,700,525**
Less: allowance for impairment (Note 20 (a))	(3,832,198)	(1,725,320)
Net amount	**203,169,989**	**153,975,205**

Impairment of Loans and advances

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

	2020 Shs 000	2019 Shs 000
Stage 1	186,697,670	146,399,876
Stage 2	7,318,369	4,850,634
Stage 3	12,986,148	4,450,015
	207,002,187	**155,700,525**

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

Loans and advances to customers at amortized cost

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

	2019 Ush 000				
	Stage 1	Stage 2	Stage 3	POCI	Total
Normal	146,399,876	1,056,131	33,836	-	147,489,843
Watch	-	3,794,503	416,193	-	4,210,696
Substandard	-	-	1,544,745	-	1,544,745
Doubtful	-	-	1,115,574	-	1,115,574
Loss	-	-	1,339,667	-	1,339,667
	146,399,876	**4,850,634**	**4,450,015**	-	**155,700,525**
Loss allowance	(912,890)	(103,478)	(708,952)	-	(1,725,320)
Carrying amount	**145,486,986**	**4,747,156**	**3,741,063**	-	**153,975,205**

Cash and Bank of Uganda Balances

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

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

Balances with Other Bank

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

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

Investment Security at amortized cost

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

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

Cash and cash equivalents

The Bank held cash and cash equivalents of Shs 92.99biillion at 31 December 2020 (2019: Shs 76.75billion). The cash and cash equivalents are held with central bank of Uganda and financial institution counterparties that are rated at least B based on S&P's ratings.

Collateral held and other credit enhancements

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

Type of credit exposure

	Note	31-Dec-20	31-Dec-19	Principal type of collateral held
		Ushs 000	Ushs 000	
Balances with Bank of Uganda	15	7%	7%	Treasury Bill(5bn)
Business Loans	19	100%	100%	Legal mortgage (Title)
Agriculture Loans	19	100%	100%	Legal Mortgage (Title)
Consumer loans	19	63%	57%	Legal Mortgage (Title)
Asset Financing	19	100%	100%	Chattels/Log Books
Loans Others	19	-	-	None
Other assets excluding prepayments	19	-	-	None

Loans and advances to customers

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

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

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

At 31 December 2020, the net carrying amount of credit-impaired loans and advances to customers amounted to Shs10.8 billion (2019: Shs4.3 billion) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Shs59.1 billion (2019: Shs 8.5billion). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against it.

ii. Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 5.

Significant increase in credit risk

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

Generating the term structure of PD

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

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

Determining whether credit risk has increased significantly

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

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

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

Covid-19 Pandemic Impact

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

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

Renegotiated loans

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

In response to the COVID-19 pandemic, during the year 2020, the Bank adopted repayment holidays/Moratoriums as guided by Bank of Uganda. A review of the Bank's credit policy was reviewed to this effect. This was primarily done to enable customers to take a temporary break from making loan repayments where they were experiencing, or are reasonably expected to experience, payment difficulties on account of Covid-19. During the period of the repayment holiday, no further arrears are reported on customers' records although interest on the deferred payments continues to accrue.

At 31 December 2020 the restructured loans with repayment holidays granted in 2020 are analysed below:

	Restructured	Collateral	
	Shs M	Shs M	
Stage 1	26,974	40,943	
Stage 2	119,373	267,809	
Stage 3	22,055	30,991	
Covid-19 repayment holiday loans		168,402	339,743

For the year ended 31 December 2020, the modification gain or loss on the restructured loans was Ushs 44,568,319 however this is immaterial to the financial statements.

Repossessed collateral

During 2020, the Bank did not re-possess any collateral held as security. The Bank's policy is to dispose of repossessed properties as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property not sold by year end is classified in the balance sheet within "other assets".

(b) Liquidity risk

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

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

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

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

	2020	2019
At 31 December	40.01%	43.07%
Average for the Period	39.06%	45.17%
Maximum for the Period	45.10%	49.46%
Minimum for the Period	**28.00%**	**43.00%**

Covid-19 Pandemic Impact:

The bank's liquidity position was slackened in the second half of the year due to delays in anticipated loan repayments. This was however countered with term borrowings towards the close of the year.

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 2020	Up to 1 month Shs 000	1-3 months Shs 000	3-12 months Shs 000	1-5 years Shs 000	Over 5 years Shs 000	Total Shs 000
Financial assets						
Cash and balances with Bank of Uganda	41,576,562	-	-	-	-	41,576,562
Placements & Deposits with other banks	16,894,287	4,663,077	19,733,040	-	-	41,290,404
Government securities	-	-	10,130,072	_	-	10,130,072
Loans and advances to customers	11,715,611	10,322,655	46,958,228	134,173,495	-	203,169,989
Other receivables	-	-	-	5,365,350	-	5,365,350
Total financial assets	**70,186,460**	**14,985,732**	**76,821,340**	**139,538,845**	-	**301,532,377**
Financial liabilities						
Customer deposits	11,496,235	13,138,555	49,269,582	129,456,745	-	203,361,117
Deposits and balances due to banking institutions	3,739,417	4,386,079	22,009,859	-	-	14,433,185
Borrowed funds	697,871	278,176	2,996,535	10,460,603	-	14,433,185
Lease liability	630,486	251,317	2,707,201	9,450,567	-	13,039,571
other liabilities	-	-	-	12,013,855	-	12,013,855
Total financial liabilities	**16,564,009**	**18,054,127**	**76,983,177**	**161,381,770**	-	**272,983,083**
Off Balance Sheet Items						
Guarantee and performance bonds	764,465	20,944	466,107	225,151	882,175	**2,358,842**
Commitments to lend	752,112	-	-	-	-	**752,112**
Total off balance sheet item	**1,516,577**	**20,944**	**466,107**	**225,151**	**882,175**	**3,110,954**
Net liquidity gap At 31 December 2020	**52,105,874**	**(3,089,339)**	**(627,944)**	**(22,068,076)**	**(882,175)**	**25,438,340**

At 31 December 2019	Up to 1 month Shs 000	1-3 months Shs 000	3-12 months Shs 000	1-5 years Shs 000	Over 5 years Shs 000	Total Shs 000
Financial assets						
Cash and balances with Bank of Uganda	35,016,468	-	-	-	-	35,016,468
Placements & Deposits with other banks	8,674,420	11,100,00	14,982,509	-	-	34,756,929
Government securities	2,00,000	-	4,975,297	_	-	6,975,297
Loans and advances to customers	8,878,839	7,823,168	35,587,947	101,685,251	-	153,975,205
Other receivables	-	-	-	2,377,117	-	2,377,117
Total financial assets	**54,569,727**	**18,923,168**	**55,545,753**	**104,062,368**	-	**233,101,016**
Financial liabilities						
Customer deposits	8,696,690	9,939,074	37,271,527	97,931,634	-	153,838,925
Deposits and balances due to banking institutions	3,147,580	3,691,894	18,526,357	-	-	25,365,831
Borrowed funds	628,929	250,696	2,700,512	9,427,218	-	13,007,355
Lease liability	518,149	206,538	2,224,849	7,766,696	-	10,716,224
other liabilities	-	-	-	8,973,617	-	8,973,617
Total financial liabilities	**12,991,348**	**14,088,202**	**60,723,237**	**124,099,165**	-	**211,901,952**
Off Balance Sheet Items						
Guarantee and performance bonds	54,203	1,485	33,048	15,964	62,550	**167,250**
Commitments to lend	922,199	-	-	-	-	**922,199**
Total off balance sheet item	**976,402**	**1,485**	**33,048**	**15,964**	**62,550**	**1,089,449**
Net liquidity gap At 31 December 2018	**40,601,977**	**4,833,481**	**(5,210,534)**	**(20,052,761)**	**(62,550)**	**20,109,615**

(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 2020 and 2019. During the reporting period, the Bank only traded in USD and the financial instruments held as at 31 December 2020 and 2019 are included in the table below.

USD balances	2020 Shs 000	2019 Shs 000
At 31 December 2020 **Assets**		
Cash and balances with Central Bank	1,312,366	1,478,275
Deposits and balances due from other banking institutions	564,413	494,397
Total assets	**1,876,779**	**1,972,672**
Liabilities		
Customer deposits	**718,055**	**443,342**
Total liabilities	**718,055**	**443,342**
Net on-balance sheet position	**1,158,724**	**1,529,330**
Net off-balance sheet position	-	-
Overall open position **As at 31 December 2020**	**1,158,724**	**1,529,330**

At 31 December 2020, if the functional currency had strengthened/weakened by 10% against the foreign currencies with all other variables held constant, the pre-tax profit/loss for the year would have been Shs1,158 million (2019: Shs1,529 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities.

Interest rate risk

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

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

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

At 31 December 2020, if the interest rates on interest bearing assets and liabilities had been 100 basis points higher/lower with all other variables held constant, the pre-tax profit/loss for the year would have been Shs 1.158 billion (2019: Shs1.531 billion) higher/lower.

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

At 31 December 2020	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Bank of Uganda	-	-	-	-	41,576,562	**41,576,562**
Placements & Deposits with other banks	14,000,000	4,663,077	19,733,040	-	2,894,287	**41,290,404**
Government securities	-	-	10,130,072	-	-	**10,130,072**
Loans and advances to customers	11,715,611	10,322,655	46,958,228	134,173,495	-	**203,169,989**
Other assets	-	-	-	-	5,365,350	**5,365,350**
Current income tax recoverable	-	-	-	-	13,760	**13,760**
Property and equipment	-	-	-	-	8,326,043	**8,326,043**
Operating lease prepayments	-	-	-	-	12,727,156	**12,727,156**
Deferred income tax asset	-	-	-	-	134,862	**134,862**
Intangible assets	-	-	-	-	2,313,547	**2,313,547**
Total assets	**25,715,611**	**14,985,732**	**76,821,340**	**134,173,495**	**73,351,567**	**325,047,745**
Liabilities						
Customer deposits	9,956,687	11,379,071	42,671,519	112,120,209	27,233,631	**203,361,117**
Deposits and balances due to other banking institutions	1,287,509	8,183,682	20,664,164	-	-	**30,135,355**
Borrowings	697,871	278,176	2,996,535	10,460,603	-	**14,433,185**
Finance Leases	630,487	251,317	2,707,200	9,450,567	-	**13,039,571**
Current tax payable		-	-	-	-	**-**
Deferred tax Liability		-	-	-	-	**-**
Other Liabilities		-	-	-	12,013,855	**12,013,855**
Equity				-	52,064,662	**52,064,662**
Total Equity and Liabilities	**12,572,554**	**20,092,246**	**69,039,418**	**132,031,379**	**91,312,148**	**325,047,745**
Interest re-pricing gap As at 31 December 2019	**13,143,057**	**(5,106,514)**	**7,781,922**	**2,142,116**		

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

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	2020 Shs 000	2019 Shs 000
Assets as per balance sheet – at amortised cost		
Cash and Balances with Bank of Uganda	41,576,562	35,016,468
Balances & Placements with other banks	41,290,404	34,756,929
Loans and advances to customers	203,169,989	153,975,205
Investment securities:	10,130,072	6,975,297
Total	**296,167,027**	**230,723,899**

	2020 Shs 000	2019 Shs 000
Liabilities as per balance sheet – at amortised cost		
Customer deposits	**203,361,117**	**153,838,925**
Deposits from other banks	**30,135,355**	**25,365,831**
Other liabilities	**12,013,855**	**8,973,617**
Finance Leases	**13,039,571**	**10,716,224**
Total	**258,549,898**	**198,894,597**

(f) Capital management

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

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

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

Under the Financial Institutions Act, 2004, each Bank is required to: (a) hold the minimum level of regulatory capital of Shs25 billion; (b) maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 10%; and (c) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

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

- Tier 1 capital (core capital) which upon applying the provisions of the Financial Institutions (Capital Adequacy Requirement) Regulation 2018, comprise Permanent Shareholders' Equity (issued and fully paid-up common shares and irredeemable, non-cumulative preference shares), share premium, prior years' retained profits, 50% of Net after-tax profits for current year-to-date and general reserves (permanent, unencumbered and able to absorb losses) less deductions of goodwill and other intangible assets, current year's losses, investments in unconsolidated financial subsidiaries, deficiencies in provisions for losses, prohibited loans to insiders and other deductions determined by the Financial Institutions Act 2004(amended 2018) and implementing the Financial Institutions (Capital Adequacy Requirements) Regulations, 2018.

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

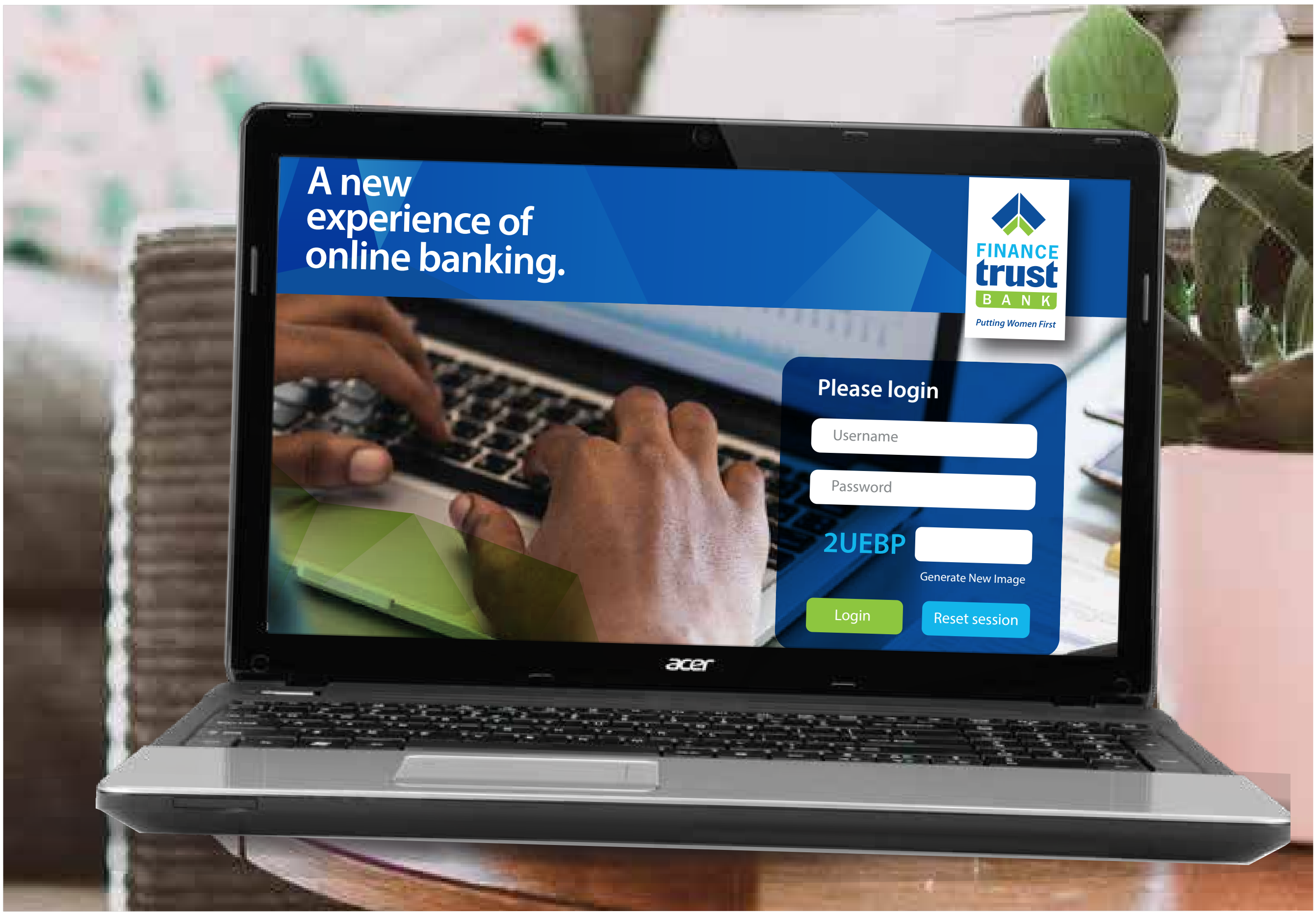
The Bank monitors the adequacy of its capital using the above ratios of core capital and total capital as set out in the Financial Institutions Act 2004(Amended 2018). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets and off-balance-sheet commitments at a weighted amount to reflect their relative risk.

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December 2020 determined in accordance with the Financial Institutions Act:

	2020 Shs 000	2019 Shs 000
Core capital (Tier 1)		
Shareholder's equity	**27,785,402**	**27,785,402**
Retained earnings	**21,195,893**	**15,568,765**
Intangible assets	**(2,313,547)**	**(2,609,177)**
Deferred income tax asset	**(134,862)**	-
Unrealized foreign exchange gains	-	-
Total core capital	**46,532,886**	**40,744,990**
Supplementary capital (Tier 2)		
General provisions (FIA)	2,029,630	1,531,908
Tier 2 capital	**2,029,630**	**1,531,908**
Total capital (Tier 1 and Tier 2)	**48,562,516**	**42,276,898**



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 2020:

Balance sheet assets (net of provisions)	Balance sheet amount 2020 Shs'000	Balance sheet amount 2019 Shs'000	Risk weight %	Risk weighted amount 2020 Shs'000	Risk weighted amount 2019 Shs'000
Cash at Hand	19,631,334	17,904,023	0%	-	-
Balances with Bank of Uganda	21,945,228	17,146,795	0%	-	-
Balances with other Financial institutions in Uganda	2,890,344	1,674,420	20%	578,069	334,884
Deposit Auction	-	10,000,000	0%	-	-
Placement with DTB	4,994,181	-	20%	998,836	-
Placement with HFB	2,996,484	-	20%	599,297	-
Placement with FINCA	6,498,264	6,100,000	20%	1,299,653	1,220,000
Placement with Pride Micro Finance	20,697,542	14,000,000	20%	4,139,508	2,800,000
Placement with Post Bank	3,213,589	2,652,419	20%	642,718	530,484
Government securities	10,130,072	6,975,297	0%	-	-
Loans and advances to customers	202,401,735	153,194,046	100%	202,401,735	153,194,046
Other assets	5,365,350	5,033,316	100%	5,365,350	5,033,316
Current income tax recoverable	13,760	26,836	100%	13,760	26,836
Property and equipment	8,326,043	9,301,761	100%	8,326,043	9,301,761
Right of Use	12,727,156	10,838,683	100%	12,727,156	10,838,683
Operating lease prepayments	-	-	100%	-	-
Intangible	-	-	0%	-	-
Deferred income tax asset	-	-	0%	-	-
On balance sheet assets	**321,831,082**	**254,847,596**		**237,092,125**	**183,280,010**
Market risk adjustment:					
Interest Rate Risk	1,446,503	1,188,111	100%	1,446,503	1,188,111
Foreign Exchange Risk	1,159,752	1,535,011	100%	1,159,752	1,535,011
Counter party risk adjustment	-	-	-	-	-
Off-balance sheet positions	-	-	-	-	-
Guarantees	2,358,842	167,250	100%	2,358,842	167,250
Commitments to lend	752,112	922,199	50%	376,056	461,099
Off balance sheet items	**3,110,954**	**1,089,449**		**2,734,898**	**628,349**
Total risk-weighted assets	**327,549,334**	**258,660,167**		**242,434,321**	**186,631,481**

Loans and advances to customers

	2020 Shs '000	2019 Shs '000
Gross loans and overdraft (Note 19(a)	207,002,187	155,700,526
Less specific provisions (FIA)	(3,793,514)	(1,924,409)
Less interest in suspense	(399,328)	(468,616)
Cash collateral	(407,610)	(113,454)
Net Loans and advances	**202,401,735**	**153,194,047**

Capital ratios per Financial Institutions Act (FIA)

Core capital	46,532,886	40,744,990
Total capital	48,562,516	42,276,898
FIA minimum ratio capital requirement		
Core capital (10%)	19.19%	21.83%
Total capital (12%)	**20.03%**	**22.65%**

7 Interest income

	2020 Shs 000	2019 Shs 000
Loans and advances	48,234,411	40,059,286
Government securities	1,270,292	1,516,531
Short term placements	3,871,374	2,703,268
	53,376,077	**44,279,085**

8 Interest expense

	2020 Shs 000	2019 Shs 000
Customer deposits	10,155,210	6,802,001
Borrowed funds	3,142,555	3,176,928
	13,297,765	**9,978,929**

9 Fee and commission income

	2020 Shs 000	2019 Shs 000
Transactional fees and commission income	6,230,826	6,053,222
Credit related fees and commission income	13,685,597	14,094,180
	19,916,423	**20,147,402**

10 Foreign exchange income

	2020 Shs 000	2019 Shs 000
Realized foreign exchange gains	407,346	158,749
Unrealized foreign exchange gains	-	-
	407,346	**158,749**

11 Other operating income

	2020 Shs 000	2019 Shs 000
Recovery of written off loans	1,001,270	1,027,525
Grant income	146,254	180,267
Other income	375,484	289,809
	1,523,008	**1,497,601**

12 Operating expenses

	2020 Shs 000	2019 Shs 000
Depreciation of property and equipment (Note 20)	2,230,555	2,065,411
Depreciation on Right of Use (Note 32(a(i))	2,349,943	2,104,540
Amortization of intangible assets (Note 21)	527,487	603,384
Employee benefits expense (Note 13)	28,709,100	27,076,724
Auditor's remuneration	253,396	273,860
Legal fees	433,291	623,967
Other professional fees	193,455	91,838
Rent and rates	-	334,916
Advertising and promotion	1,522,426	1,612,941
Communication and technology	2,804,206	2,483,524
Printing &Stationery costs	1,359,276	1,175,829
Software Costs	2,322,567	2,395,960
Security Expenses	1,663,031	1,614,680
Fixed Assets Maintenance costs	840,952	1,125,333
Other	3,693,381	3,117,416
	48,903,066	**46,700,323**

13 Employee benefits expense

	2020 Shs 000	2019 Shs 000
Salaries and wages	23,056,191	21,616,527
NSSF contributions	2,326,432	2,242,971
Defined contribution scheme contributions	777,626	716,342
Other staff costs	2,548,851	2,500,884
	28,709,100	**27,076,724**

14 Income tax expense

	2020 Shs 000	2019 Shs 000
Current income tax charge	2,863,421	2,029,029
Withholding tax on government securities	254,058	315,793
Prior Period Adjustments	-	423,635
Defferred income tax charge- current year (Note 26)	(535,939)	(160,934)
	2,581,540	**2,607,523**

	Effective Tax Rate	2020 Shs 000	Effective Tax Rate	2019 Shs 000
PROFIT BEFORE INCOME TAX		**8,415,559**		**8,717,059**
Tax calculated at the statutory income tax rate	30%	2,524,668	30%	2,615,118
Tax effect of:				
Tax effect of non-deductible items	2%	222,619	0%	135,862
30% standard tax rate applied on income taxed at 20%	(2%)	(124,770)	(3%)	(148,335)
Prior year deferred income tax under provision	0%	(40,977)	(1%)	4,879
Income tax Charge	**30%**	**2,581,540**	**27%**	**2,607,523**
Current income tax recoverable/(payable) was as follows:				
At 1 January		26,836		150,973
Adjustments for prior period items		115,746		(423,635)
Current income tax charge		(3,117,479)		(2,344,823)
Income tax paid		2,988,657		2,644,321
At 31 December		**13,760**		**26,836**

15 Cash and balances with Bank of Uganda

	2020 Shs 000	2019 Shs 000
Cash on hand	19,658,660	17,904,024
Balances with Bank of Uganda	21,975,774	17,146,794
IFRS 9 Impairment on Balances with Bank of Uganda	(57,872)	(34,350)
	41,576,562	**35,016,468**

16 Placements and deposits with other banks

	2020 Shs 000	2019 Shs 000
Balances with Banks in Uganda	2,894,287	1,674,420
Placements with other banking institutions - in Uganda	38,452,439	33,116,605
IFRS 9 Impairment	(56,322)	(34,096)
	41,290,404	**34,756,929**

17 Government securities

Treasury bills	2020 Shs 000	2019 Shs 000
Maturing within 90 days	-	2,000,000
Maturing later than 90 days	11,000,000	1,000,000
	-	-
	11,000,000	**3,000,000**
Unearned interest	(854,638)	(179,221)
IFRS 9 impairment	(15,290)	(3,188)
	10,130,072	**2,817,591**
Treasury bonds		
Maturing within 90 days	-	2,000,000
Maturing after 90 days	-	2,162,498
IFRS 9 Impairment provision	-	(4,792)
	-	4,157,706
Total government securities	**10,130,072**	**6,975,297**

18 Other assets

	2020 Shs 000	2019 Shs 000
Accounts receivable and prepayments	4,984,114	4,486,565
Other receivables	52,686	73,976
Consumables	328,550	472,775
	5,365,350	**5,033,316**

19 Loans and advances to customers

a) Analysis of loan advances to customers by category

	2020 Shs 000	2019 Shs 000
Term loans	**205,420,739**	**153,956,576**
Overdrafts	**1,736,065**	**1,627,282**
Staff loan fair valuation adjustment	**(154,617)**	**116,667**
Total Gross Loans and advances	**207,002,187**	**155,700,525**
Less: Provision for impairment of loans and advances		
Stage 1	**(1,616,201)**	**(912,890)**
Stage 2	**(71,841)**	**(103,478)**
Stage 3	**(2,144,156)**	**(708,952)**
Total loan provisions	**(3,832,198)**	**(1,725,320)**
Net loans and advances	**203,169,989**	**153,975,205**

The weighted average effective interest rate on loans and advances to customers was 29.2% (2019: 29.3%).

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

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

				2019 Shs 000
Year ended 31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January	**1,098,743**	**37,304**	**2,219,710**	**3,355,757**
Provision for loan impairment	150,861	116,770	414,522	682,153
Loans written off during the year as uncollectible	(336,714)	(50,596)	(1,925,280)	(2,312,590)
At 31 December	**912,890**	**103,478**	**708,952**	**1,725,320**

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

Year ended 31 December 2020		2020 Shs 000
At 1 January		
Impairment charge on cash & balances with Bank of Uganda (note 15)		57,872
Impairment charge on Bank balances (note 16)		56,323
Impairment charge on investment securities (note 17a)		15,290
At 31 December 2020		**129,485**
Year ended 31 December 2019		**2019**
At 1 January 2019		Shs 000
IFRS 9 Impairment adjustment on balances with bank of Uganda (note 15)		34,350
IFRS 9 Impairment adjustment bank balances (note 16)		34,096
IFRS 9 Impairment adjustment on investment securities (note 17)		7,980
At 31 December 2019		**76,426**

(b) Impairment losses charged to profit or loss

	2020 Shs 000	2019 Shs 000
Impairment charge on cash & balances with Bank of Uganda	**23,522**	**19,366**
Impairment charge on Bank balances	**22,228**	**11,609**
Impairment charge on investment securities	**7,310**	**(26,601)**
Impairment charge on Loans	**4,553,403**	**682,153**
	4,606,463	**686,527**

(c) Regulatory Credit Risk Reserve

Analysis as required under the Financial Institutions Act (FIA)

	2020 Shs 000	2019 Shs 000
Total provision as per IFRS		
Stage 1	1,669,258	989,317
Stage 2	71,841	103,478
Stage 3	2,144,156	708,952
Total	**3,885,255**	**1,801,747**
Total provisions as required under the FIA		
Specific provisions	3,793,514	1,924,409
General p rovisions	2,029,630	1,531,908
	5,823,144	**3,456,317**

Regulatory reserve		
At 1 January	1,654,570	103,311
Transfer from retained earnings	206,891	1,551,259
At 31 December	**1,861,461**	**1,654,570**

20 Property and equipment

	Buildings Shs 000	Motor vehicles/ Cycles Shs 000	Compu ter Hardware Shs 000	Fixtures, fittings and equipment Shs 000	Work in progress Shs 000	Total Shs 000
Year Ended 31 December 2020						
Opening net book amount	**554,753**	**848,757**	**1,877,254**	**5,470,050**	**550,947**	**9,301,761**
Asset Reconciliation Adjustment				-	-	-
Additions	-	166,998	68,054	672,678	1,072,341	1,980,071
Transfers from WIP		375,706		187,406	(775,690)	(212,578)
Depreciation charge	(8,227)	(314,170)	(634,124)	(1,274,034)	-	(2,230,555)
Disposals	-	(425,867)	(1,209,317)	(3,578,116)	(146,396)	(5,359,696)
Depreciation on Disposals	-	387,029	1,201,919	3,258,092	-	4,847,040
Closing net book amount	**546,526**	**1,038,453**	**1,303,786**	**4,736,076**	**701,202**	**8,326,043**
Cost	603,734	3,011,775	5,874,643	13,040,068	701,202	23,231,422
Accumulated depreciation	(57,208)	(1,973,322)	(4,570,857)	(8,303,992)	-	(14,905,379)
Net book amount	**546,526**	**1,038,453**	**1,303,786**	**4,736,076**	**701,202**	**8,326,043**
Year Ended 31 December 2019						
Opening net book amount	**562,981**	**806,106**	**1,528,056**	**5,491,378**	**273,986**	**8,662,507**
Asset reconciliation adjustment				(40,143)	-	(40,143)
Additions	-	287,902	910,728	1,636,814	315,093	3,150,537
Transfers from WIP				19,414	(38,132)	(18,718)
Write Offs	-	-	(2,756)	(149,739)	-	(152,495)
Depreciation charge	(8,228)	(240,875)	(558,711)	(1,257,598)	-	(2,065,412)
Disposals	-	(4,376)	(63)	(230,076)	-	(234,515)
Closing net book amount	554,753	848,757	1,877,254	5,470,050	550,947	9,301,761
Cost	603,734	2,894,937	7,015,906	15,758,100	550,947	26,823,624
Accumulated depreciation	(48,981)	(2,046,180)	(5,138,652)	(10,288,050)	-	(17,521,863)
Net book amount	**554,753**	**848,757**	**1,877,254**	**5,470,050**	**550,947**	**9,301,761**

21 Intangible assets

	2020 Shs 000	2019 Shs 000
Net book amount at 1 January	2,609,177	2,735,821
Additions: Computer Software	30,361	540,371
Write offs	(11,082)	(82,350)
Transfer from property and equipment	212,578	18,719
Amortization	(527,487)	(603,384)
Net book amount at 31 December	**2,313,547**	**2,609,177**
Cost	**7,232,025**	**7,023,142**
Accumulated depreciation	(4,918,478)	(4,413,965)
Net book amount	**2,313,547**	**2,609,177**

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

22 Customer deposits

	2020 Shs 000	2019 Shs 000
Current and demand deposits	27,233,631	24,210,225
Savings accounts	141,096,987	103,900,976
Fixed deposit accounts	35,030,499	25,727,724
	203,361,117	**153,838,925**

The weighted average effective interest rate on customer deposits was 2.11% (2019: 2.04%).

23 Deposits and balances due to other banking Institutions

	2020 Shs 000	2019 Shs 000
Terms deposits	**30,135,355**	**25,365,831**
	30,135,355	**25,365,831**

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 11.79%..

24 Borrowings

	2020 Shs 000	2019 Shs 000
Uganda Development Bank	7,535,860	3,739,040
aBi Finance	558,170	1,574,577
Uganda Energy Credit Capitalisation Company	108,909	844,472
The Micro Finance Support Centre Limited	1,503,860	3,495,804
East Africa Development Bank	4,726,386	3,353,462
	14,433,185	**13,007,355**

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

Details	Interest rate	Tenure (years)	Initial Amount Shs 000	Collateral
UDB Loan(1)	12%	5	6,000,000	Loan portfolio pledge & Cross Guarantee from UWT
UDB Loan(2)	6%	5	5,000,000	Loan portfolio pledge & Cross Guarantee from UWT
MSCL Loan	11%	3	3,000,000	Loan portfolio pledge
aBi Finance Loan	14%	5	2,200,000	Loan portfolio pledge
UECCC(1) Loan	8.15%	10	131,381	Nil
UECCC(2) Loan	5%	2.7	50,000	Nil
EADB(1) Loan	12%	8	5,587,500	Loan portfolio pledge
EADB(2) Loan	12%	7	2,145,000	Loan portfolio pledge

25 Other liabilities

	2020 Shs 000	2019 Shs 000
Accounts payable	2,070,834	1,864,161
Accruals and provisions	1,497,649	840,014
Other taxes payable	957,332	945,818
Gratuity & pensions	729,511	805,903
Deferred income	3,308,717	2,029,904
Designated funds	115,482	55,668
Dividends payable	29,279	46,769
Capital grants	576,464	722,718
Suspended loan fees	612,240	695,303
NSSF payable	323,832	289,577
Agricultural Credit Facility Reimbursement	1,003,782	171,000
Loan Insurance payable	165,286	190,574
Others	623,447	316,208
	12,013,855	**8,973,617**

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

26 Deferred income tax (asset)/liability

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

Year ended 31 December 2019	1 January 2020 Shs 000	Charged (credited) to P/L Shs 000	31 December 2020 Shs 000
Deferred income tax liabilities			
Accelerated tax depreciation	1,437,077	(147,500)	1,289,577
Tax losses carried forward	-	-	-
Capital grants	(216,815)	43,876	(172,939)
Provisions for loan impairment	(174,144)	(332,268)	(506,412)
IFRS 16 Impact	(151,266)	151,266	-
Other provisions	(493,775)	(251,313)	(745,088)
Net deferred income tax (asset)/liability	**401,077**	**(535,939)**	**(134,862)**

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

The movement on the deferred tax asset amount is as follows:	2020 Shs 000	2019 Shs 000
At 1 January	**401,077**	**562,011**
Income statement credit	(535,939)	(160,934)
At 31 December	**(134,862)**	**401,077**

27 Share capital

	Number of sha res issued & fully paid	Ordinary shares Shs 000
Year ended 31 De cember 2020		
At start of year	**27,785,402**	**27,785,402**
	-	-
At year end	**27,785,402**	**27,785,402**

Year ended 31 De cember 2019		
At start of year	**27,785,402**	**27,785,402**
	-	-
At end of year	**27,785,402**	**27,785,402**

The total authorised number of ordinary shares is Shs30 million (2019: 30 million) with a par value of Shs1,000 per share. No share issues were done during the year 2020. Ordinary Shareholders are entitled to dividends when declared and one vote each during the annual general meeting

28 Bank shareholding

The Bank shareholders are as follows:

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

29 Analysis of cash and cash equivalents

	2020 Shs 000	2019 Shs 000
Cash and Balances with Banks of Uganda (note 15)	41,576,562	35,016,468
Less: cash reserve requirement	(16,268,889)	(12,307,114)
Government securities - maturing within 90 days (note 18)	-	4,000,000
Balances and Placements with other banks (note 16)	41,290,404	34,756,929
	66,598,077	**61,466,283**

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.

	2020 Shs 000	2019 Shs 000
Cash & unrestricted balances with Bank of Uganda (Note 15)	41,576,562	35,016,468
Government securities - maturing within 90 days & AFS (note 17)	-	4,000,000
Balances with other banks (note 16)	2,894,287	1,674,420
Included in cash and cash equivalents	**44,470,849**	**40,690,888**
Restricted balances with Bank of Uganda	5,000,000	2,000,000
Movement in restricted balances:		
At start of year	2,000,000	2,000,000
Movement during the year	3,000,000	-
At end of year	5,000,000	2,000,000

30 Analysis of changes in financing during the year

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

	Borrowings Shs 000	Change in operating grants Shs 000	Change in Capital grants Shs 000	Dividends paid to share Shs 000
31 December 2020 Balance as at 1 January 2020	**13,007,355**	**55,668**	**722,718**	-
Changes in financing cash flows				
Receipts	7,145,000	269,538	-	-
Repayments of Debt	(5,717,356)	(209,725)	-	-
Total changes from financing cash flows	1,427,644	59,813	-	-
Other changes				
Interest expense	(1,814)	-	**(146,254)**	-
Total liability related other changes	(1,814)	-	-	-
Balance as at 31 December 2020	**14,433,185**	**115,481**	**576,464**	-
31 December 2019 Balance as at 1 January 19	**15,405,937**	**83,595**	**902,984**	-
Changes in financing cash flows				
Receipts	3,050,000	476,038	-	-
Repayments of Debt	(5,371,023)	(503,965)	-	**(1,717,313)**
Total changes from financing cash flows	**(2,321,023)**	**(27,927)**	-	**(1,717,313)**
Other changes Interest expense		-		-
Total liability related other changes	**(77,559)**	-	**(180,267)**	-
Balance as at 31 December 2019	**(77,559)**	-	**(180,267)**	-

31 Retained earnings

	2020 Shs 000	2019 Shs 000
At 1 January	15,568,765	12,232,395
Total comprehensive income for the year	5,834,019	6,109,535
Transfer from Regulatory Reserves	(206,891)	(1,551,259)
Transactions with Owners	-	(1,221,906)
At 31 December	**21,195,893**	**15,568,765**

32 Leases

a) Leases as Lessee

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

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

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

The right of use is subsequently depreciated on a straight line basis, periodically reduced by impairment losses, if any and adjusted for certain re-measurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property.

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

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

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

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

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

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

IAS 16.60 The Bank also leases IT equipment (The Call Centre and Money Counting Equipment) with contract terms of two to three years. These leases are short-term and/or leases of low-value items. The Bank elected not to recognize right-of-use assets and lease liabilities for these leases. As at end of the year 2020, the Bank had running leases with Sybl, for a 3-year contract for the call center equipment, 10 Note counting Machines from Sybl for 5 years with annual lease rentals were agreed at Shs49,560,000 payable semi-annually with an effective date of the lease arrangement was 01 April 2020, and 4-year lease of 27 Note counting machines from Copy Cat with quarterly rentals of 31,541,400. These items are treated as low value considering the cost of each equipment and the netbook value there on seated under the bank's pool of Property plant and Equipment (Note 21).

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

i) Right-of- use assets

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

The balance of Right of Use as at 31 December 2020	2020 Shs 000	2019 Shs 000
As at 1 January	12,943,223	10,491,899
Additions	4,508,635	2,451,324
Write Offs	(494,278)	
As at 31 December	**16,957,580**	**12,943,223**
Amortization		
As at 1 January	(2,104,540)	-
Charge for the year	(2,349,943)	(2,104,540)
Write Offs	224,059	-
As 31 December	**(4,230,424)**	**(2,104,540)**
Net book value As 31 December	**12,727,156**	**10,838,683**

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

ii) Lease Liability

	2020 Shs 000	2019 Shs 000
As at 1 January		
Lease liability as at 1 January	10,716,224	10,385,044
Lease liability during the year	5,538,115	2,099,172
Lease charge for the year	1,356,079	1,094,285
Lease payments during the year	(3,342,674)	(2,624,578)
Terminations during the year	(1,228,173)	(237,699)
	13,039,571	**10,716,224**
Not later than 1 year	60,000	2,949,528
Later than 1 year but less than 5 years	12,979,571	7,766,696
	13,039,571	**10,716,224**

iii) Renewal options

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

33 Earnings per share

	2020 Shs 000	2019 Shs 000
Profit attributable to equity holders of the Bank	**5,848,537**	**6,109,535**
Weighted average number of ordinary shares in issue	**27,785,402**	**27,785,402**
Earnings per share (expressed in Shs per share)	**0.210**	**0.220**

34 Related party balances

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

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

	2020 Shs 000	2019 Shs 000
Loans and advances to key management	1,955,736	1,507,614
Loans and advances to Directors	-	-
Loans to Shareholder (Ms Wanendeya Ida, Mr Mwambu William Wanendeya on behalf of Carico Café Connoisseur Limited & Ms Lydia Ochieng Obbo))	515,301	284,649
TOTAL	**2,471,037**	**1,792,263**

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

Interest income earned on loans and advances to key management and directors is Shs 203 million (2018: Shs 196 million).

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

Key management compensation	2020 Shs 000	2019 Shs 000
Salaries and short-term employment benefits	3,550,465	3,100,677
Terminal benefits	777,627	716,342
Other staff benefits	253,139	247,429
	4,581,231	**4,064,448**
Directors' remuneration		
Directors' fees	467,524	478,884

35 Bank Commitments

The following are the commitments outstanding at year end	2020 Shs 000	2019 Shs 000
Guarantee and performance bonds	2,358,842	167,250
	2,358,842	**167,250**

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:

	2020 Shs 000	2019 Shs 000
Approved advances not utilized	**752,112**	**922,199**

36 Dividends

	2020 Shs 000	2019 Shs 000
Dividends Proposed	1,221,906	1,221,906
	1,221,906	**1,221,906**

No interim dividend was paid during the year 2020 (2019: Nil). Proposed dividends for 2019 were not paid out in line with the BOU directive to all SFIs to defer all discretionary payments in a bid of ensuring adequate buffer capital. After the reporting date no dividends were proposed by the Board of Directors for the year 2020 (2019: Shs1.222 billion). The dividends have not been recognized as liabilities and there are no tax consequences.

37 Transition from Libor Benchmark

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

The Bank does not have any financial transactions linked to LIBOR and therefore anticipates a smooth transition away from LIBOR scheduled to end on 31st December 2021.

38 Subsequent events

i)Extension of Credit Relief Measures and Covid-19 Liquidity Assistance Programme

On 15th February 2021, Bank of Uganda announced an extension of the Credit Relief measures for another six months effective April 1 2021, when the extraordinary measures were otherwise due to come to an end. The Covid-19 Liquidity Assistance programme (CLAP) to supervised financial institutions is also to be maintained for the same period. This extension is intended to:

1- Help commercial banks and other supervised financial institutions continue to restructure loans. This is premised on the fact that the medium term economic outlook continues to be highly conditional on the timeline of the world-wide vaccines rollout and the course of the virus and its new variants.
2- Facilitating revival of real sector activities and mitigating the impact on the ultimate borrowers that are under financial stress caused by economic fallout on account of Covid-19 Pandemic.
3- To ensure viability of solvent supervised financial institutions that may come under liquidity stress during the pandemic.

The above measures may result into:

1- A long Moratorium can impact the credit behaviour of borrowers and increase the risks of delinquencies post resumption of scheduled payments.
2- It may result in vitiating the overall credit discipline which will have a debilitating impact on the process of credit creation in the economy.
3- Temporary Moratorium may not be sufficient in addressing deeper cash flow problems of borrowers; it may exacerbate the repayment pressures for the borrowers.

The extent of the damaging effects of the Pandemic remains a mystery and the full effects may not be reliably estimated, however the Bank's Forward Looking Information (FLI) model is always adjusted to take care of macro-economic factors such as these in deriving the loss loan provisions that were incorporated in the financial statements.

ii) FI (Capital Buffers and Leverage Ratio) Regulations 2020

Bank of Uganda on 1st February 2021 issued a circular to Commercial Banks and Credit Institutions on developments in regard to the 2020 regulation on Capital Buffers and leverage ratio. This took effect 31st December 2020 with a twelve months' allowance from stated date for all none complying Banks to do so. Commercial Banks and Credit institutions will be required to maintain a Capital Conservation Buffer of 2.5% of risk weighted assets over and above the core capital ratio and total capital ratio, a Systemic Risk Reserve Buffer for domestically important banks ranging from 0% to 3.5% of risk weighted assets and a minimum Leverage Ratio of 6% of the total balance sheet and off balance sheet assets.

The Bank has instituted a committee comprised of Treasury, Finance, Credit and Compliance chaired by the Executive Director to draw a compliance road map to ensure that Bank complies with the new Capital regulatory requirements by 31st December 2021

Risk Review

Celebrating 37 years of growing businesses & trust every day

HEAD OF RISK'S REVIEW

Head of Risk
Martin Acegere

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

How the COVID-19 pandemic and related economic shock has impacted our loan portfolio, Stakeholders and responsibilities.

In Uganda, the Government announced the first set of Covid-19 Standard Operating Procedures on the prevention and spread of Covid-19 on March 14th 2020. During the announcement, the government imposed a country wide lockdown with key highlights including; imposition of night time curfew, closure of non-food markets, restrictions in transport industry, partial closure of the international airport and border entry points, ban on sports and entertainment events, and ban on all social and political gatherings.

These restrictions had both direct and indirect impact on all sectors of the economy with schools, transport, tourism, trade, h¬¬ospitality and entertainment affected most with loss of employment, loss of capital, accumulated overhead costs in form of rent arrears, fall in prices for fresh agricultural commodities and increase in transport costs.

Consequently, the bank's loan portfoli¬¬o experienced a hit with a sizeable proportion of the portfolio under the severely affected sectors. It is important to note that whereas the bank holds a sizeable Agriculture portfolio that was not directly affected by the Covid-19 restrictions, the restrictions in transport industry and bulk consumers of agriculture products such as hotels led to prices plummeting leading to losses to farmers.

These realities meant that our clients' ability to meet their loan obligations was incapacitated leading to increase in defaults with the ratio of Non-performing loans to total gross loans ratio peaking at 7.5% in May 2020. Furthermore, the uncertainty associated with Covid-19 and slump in economic activity due to the restrictions instituted by Government led to drop in actual growth of the loan portfolio affecting the bank's future interest income from the bank's largest earning asset.

With the relaxation of the restrictions towards the end of year, there was an improvement in economic activity albeit at a slow rate leading to an improvement in loan demand and loan repayments.

The restrictions imposed made it extremely challenging for our clients to access services via the branches and thus had to access bank services through our digital channels. Initially, this was a challenge with few customers actively using the channels however the number of clients enrolled and using the digital channels including mobile banking, internet banking and Automated Teller Machines (ATMs) increased progressively as clients appreciated the convenience and ease of using the channels.

During the period, the bank prioritized the staff and client safety, business continuity and job security for its workforce amidst the challenging business environment.

With the increasing threat of infection, the bank invoked the Business Continuity Plan with critical non-site dependent staff working from home while the critical site dependent staff were transported to and from Head office. For branches, management maintained an optimal number of staff who were transported to and from the branches. The non –critical staff were asked to take mandatory annual leave in a bid to preserve their jobs till when the situation returned to normal.

Consequently, staff productivity was affected however with the phased relaxation of restrictions by Government from June 2020, staff productively improved greatly.

In liaison with the medical insurance service provider, the bank arranged for Covid-19 screening at select branches with suspected cases of Covid-19 and also ensured that staff received the necessary medications when diagnosed with the virus. Sadly, the bank lost one staff to Covid-19.

The Senior Management team of the bank has remained steadfast in guiding and providing strategic direction to the staff with the support of the Board of Directors. Faced with an unprecedented challenge, senior management under the stewardship of the Managing Director ensured that the bank remained a going concern, preserved shareholder value while prioritizing staff safety and job security.

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

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

Due to social distancing requirements, the bank has over the last 12 months organized online webinars for clients facilitated by experts in various fields and sectors. The sessions provide clients with a platform to learn from the experts and share experiences from each other on new emerging trends in their area of specialty and how to overcome any associated risks and exploit the opportunities therein.

At individual customer level, the bank leverages its Client Relationship Management model to engage clients and provide advice on probable risks and available opportunities that the clients can benefit from. The Client Relationship Officers provide advice to the clients on savings and loan account management, liquidity management and appropriate bank services depending on their circumstances.

How we integrated environmental, social and governance risk management into our Reputational Risk framework

Finance Trust Bank takes pride in being a responsible corporate global citizen that considers environmental and social impact in all its undertakings and decision making. The Board and Management are cognizant of social and environmental threats such as global warming, air pollution, improper waste management, social injustice, forced labour, exclusion, child labour among others and has put in place policies to mitigate the aforementioned threats and their possible impact. In addition, the bank fronts transparency, compliance to laws, inclusiveness, broad based participation and accountability through its processes and structures which represents tenets of good governance.

The bank continues to partner with water.org to advance funding to its clients for access to safe clean water through construction of boreholes, erecting water tanks, improved latrines among others to improve sanitation leading to low disease prevalence. Furthermore, the bank has entered into partnership with funders that share similar environmental concerns to provide funding for biodiversity projects. With the bank rooted in women and youth causes, the institution has partnered with several Non-Governmental and Not for Profit organizations to bring services closer to women and the youth by developing special products for women and youth.

Strengthening the Bank's risk culture

The Board of Directors sets the tone at the top with clear objectives regarding risk and risk management. Risk management is at the core of all decisions and strategies undertaken by the bank and as such, the bank continually strives to create an environment and norms of behavior that promote the ability for all staff to identify, understand, openly discuss and act on the organization's current and future risks. The bank defines this set of behavior through its core values, policies and procedures which are communicated across the entire organization through trainings organized by the Human Resource department in liaison with business units. This has facilitated creation of a culture of risk consciousness where management and staff can ably make the right decisions when faced with challenges.

Whereas the bank is exposed to and manages several risks in the pursuit of its objectives, Fraud and poor customer service are zero tolerance issues that staff at all levels must be aware of and avoid as practically possible because of the impact they may have on the reputation and brand of the bank. As mentioned above, the bank invested in over 85 trainings targeting 1,747 staff in the year 2020 with 27% of the trainings conducted online due to the outbreak of Covid-19.

The investment has culminated into improved risk decision making leading to improvements in assurance review ratings and risk adjusted performance. Despite the effects of Covid-19 in 2020, the bank was able to register a profit of UGX UGX5.83bn in 2020.

Enhancing information and cyber security capabilities

The bank has a robust information and cyber security capability that is able to safeguard it against any cyber threats. The outbreak of Covid-19 and subsequent restrictions in the year 2020 in the form of lockdown led to a rush to enroll and use electronic banking platforms. Whereas the government relaxed the restrictions in a phased manner, the usage of electronic banking platforms did not subside with customers appreciating the convenience and ease of transacting with mobile banking, online banking and ATMs. The increased usage of the channels has attracted the attention of fraudsters who try to exploit vulnerabilities in bank systems and poor customer device management.

To avert the threats, the bank enhanced its information and cyber security through the following strategies;

- Awareness campaigns to sensitize customers about device and account management while using electronic channels through safeguarding of Personal Identification Numbers (PINs), use of secure connections while using devices to transact, installation of up-to-date Anti-virus, changing of passwords when they suspect that they have been compromised.
- Transaction and device authentication controls on mobile banking.
- Revision of transaction limits.

Our risk profile and performance in 2020

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

Strategic risk is defined as the risk of loss arising from current and prospective adverse impact on earnings or capital arising from incorrect or inappropriate business decisions, improper implementation of decisions or lack of responsiveness to industry changes. The external environment has a significant impact on the strategic risk of the bank. In the year 2020, the bank was greatly affected by the disruptions arising from the outbreak of Covid-19 leading to failure to implement a number of strategic activities. The Board and management through the Board ALCO, Board Credit Committee and Board Compensation committee increased the frequency of engagements to address emerging risks as the pandemic evolved. This necessitated management and the Board to review the operating plan with some activities postponed to 2021.

Credit risk refers to the risk of loss arising from failure by a borrower or counterparty to meet their obligations as per the terms and conditions. This risk is very critical for the bank since it relates to the bank's major earning Asset which is the Loan portfolio.

With the outbreak of Covid-19 and the resultant disruptions, the ability of several households and enterprises to meet their obligations was affected due to loss of jobs and lockdown leading to an increase in the default rates (PAR 30 days) from 3.95% as at Dec 2019 to 18.27% as at May 2020 before closing at 3.75% as at Dec 2020. In response to the pandemic, the bank extended credit relief to clients in form of moratorium and restructures in which some client's principal and or interest payments were suspended and revision of loan instalments in alignment to their level of income with loans worth Ugx25,996,362,115 restructured as at April 2020. Besides extension of credit relief to the clients, the bank reduced its appetite for lending to the most severely affected sectors of Schools, Entertainment and Hospitality, Tourism and Transport till when the Government relaxed some restrictions. As at Dec 2020, the outstanding restructured portfolio stood at Ugx49, 236,504,154bn with majority of the loans having resumed paying their loan instalments.

Operational Risk is defined as the risk of loss arising from failed or inadequate people, processes, systems and external events. Whereas, operational risk is generally high in banks, it was excercabated by the outbreak of Covid-19. Staff productivity was greatly affected due to lockdown and restrictions in social gatherings. On the positive note, the bank experienced a surge in the enrolment and usage of electronic channels as branches were only capable of operating for limited hours to enable the staff comply with curfew hours. The zero rating of mobile money and mobile banking services coupled with the fact that covid-19 can be transmitted through paper money led to increase in usage of the electronic channels. However, with the increased usage of electronic channels, cyber frauds and crimes increased with fraudsters targeting end user vulnerabilities related to PIN compromise, hacking and account take over. The bank mitigated the operational risks through enforcing Standard operating procedures, Covid-19 screening for staff at branches with suspected positive cases and confirmed positive cases taken care of under the bank's medical insurance scheme, customer sensitization, and enhancement of controls over the electronic channels and revision of transactional limits on the channels. Implementation of the afore-mentioned led to steep increase in operating costs for the bank.

In the last quarter of the year, the bank suffered disruptions arising from the political activities leading to the general elections of 2021. The disruptions were mainly in form of riots culminating in temporal closure of branches, closure of clients' businesses and paralysis of transport affecting movement of people, goods and services.

Liquidity risk is defined as the risk of loss arising from inability to meet commitments, repayments and withdraws as they fall due in terms of time, place and in the required currency. During the year, the bank's liquidity position came under pressure at the height of the pandemic. Initially, there were panic withdraws at the start of the pandemic, however this was not sustained and deposits resurged. However the suspended repayments affected the liquidity ratio (ratio of total liquid assets to total deposits) dropping from 43.25% as at Feb 2020 to 28.1% as at Oct 2020. With the relaxation of the restrictions leading to increase in repayments and growth in deposits, the liquidity ratios improved to close at 37.7% as at Dec 2020. In order to support the growth in the loan book and mitigate the impact of default of the restructured loans management arranged standby borrowings to a tune of app. 40bn to be drawn as and when required depending on the rate of growth of the loan book.

Interest rate risk is the risk of loss arising from adverse movement in interest rates. In the period, the rates remained largely low and on a decreasing trend on the back drop of the stable Central Bank Rate aimed at encouraging economic activity. The bank operated within the set limit on interest rates on borrowings throughout the period but on the flipside, there was reduction in interest income on investments due to the low interest rates.

Compliance risk – this is the risk of loss arising from failure to comply with laws, regulatory guidelines and internally set policies and limits. Over the period, the risk was noted to be increasing due to the impact of Covid-19 on key regulatory ratios that the bank reports on such as liquidity ratios and non-performing ratio. Important to note is that at the end of the year, Bank of Uganda implemented the Financial Institutions (Capital Conservation Buffer and Leverage ratios) guidelines which seek to increase the minimum capital requirements for banks with an additional Capital Conservation Buffer (CCB) of 2.5% over and above the current 10% and 12% for Core and Total Capital. The regulator also notified banks that at its own discretion, during periods of high credit growth, it can implement the Countercyclical buffer (Ccy) of additional 2.5% over and above the Capital Conservation Buffer. Banks are not required to comply with the Ccy but are expected to comply with the CCB.

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

Reputational Risk is the risk of loss due to adverse publicity. It relates to the brand and image of the bank. Finance Trust Bank did not suffer any bad publicity in the year and the brand is on the rise. In order to further improve the brand image, a couple of branches including Kampala Road, and Kamwenge, have been renovated while Busia has been relocated to better and visible location.

Overall, management with the support of the Board, was able to contain current and emerging risks which led to an unqualified Audit opinion and Year to date profit of UGX 5.834bn above the revised loss budget of UGX 2.6bn.

An update on our risk management approach

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

Risk Management process

The Bank manages risk through coordinated set of activities for identifying, analyzing and evaluating whether the risk should be modified by risk treatment in order to satisfy its risk criteria.
The Bank's risk management process is initiated through establishment of the context of risk management. By establishing the context, the Bank articulates its objectives, defines the external and internal parameters to be taken into account when managing risk, and sets the scope and risk criteria for accepting the risk. Determination of the scope of risks is followed by risk identification, assessment, and treatment as well as monitoring.

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

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

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

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

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

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

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

Risk Management Department

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

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

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

Risk Appetite Statement:

The Banks risk appetite statement articulates the aggregate level of risk that Finance Trust is willing to accept, or to avoid, in order to achieve its business objectives. This is determined and set by the Board of Directors. The bank's risk appetite statement still states that;

"Finance Trust Bank shall take a cautious and conservative risk approach in all its banking business. This shall be manifested in the way risk decisions are made across all business units to ensure that risks are clearly identified, understood and mitigated".

To facilitate this process, the Bank shall conduct an annual risk profiling exercise and develop a risk Heat Map that shall guide management and the Board on the risk metamorphosis. In addition, all new business proposals, products and services shall be taken through a new risk appraisal and approval process as the initial step before arriving at any decisions.

> "external and internal speakers provided input to the Bank's online discussions with customers throughout the year, which covered some key societal issues around the evolving financial landscape"

STAKEHOLDER ENGAGEMENTS

The Bank recognizes the significance of stakeholder consideration and engagement as part of Management discussions and decision-making. A key enabler of stakeholder engagement in 2020 was Management support for online engagements with stakeholders, key market visits.

Regulator and Government Agencies

The Bank's Executives and Management regularly engage with relevant authorities across our footprint. As with most forms of stakeholder engagement during 2020, physical meetings were modified to virtual interactions and calls as the year progressed. The Bank engaged with Bank of Uganda and other government agencies, including local government offices in the regions via a number of forums, either collectively or individually to manage the relationships, report on compliance and audits as necessary.

Customers

Due to travel restrictions through 2020, the Bank's top Management was unable to physically reach majority of the customers in our regional markets. We worked through our branch management structures to have critical meetings and manage relationships. As such, external and internal speakers provided input to the Bank's online discussions with customers throughout the year, which covered some key societal issues around the evolving financial landscape, the longer-term impact of the pandemic and health issues.

Employees

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

Shareholders

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

Get a Business Loan

Mama's Safe Savings

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

Women's Business Loan

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

Women's Home Improvement Loan

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

Celebrating 37 years of growing businesses & trust every day

Shareholders

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 15 years' practical experience in Banking and Microfinance. Previously she has worked in various capacities, at Finance Trust Bank as Head of Operations, and Operations & Compliance Manager. Prior to Finance Trust Bank, Annet held various key positions at Pride Micro nance and Nile Bank Ltd.

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

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

Annette Kiggundu
Executive Director

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

Previously, she worked with UBA Uganda and Centenary bank.

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

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Mr. Tor. G. Gull

Director

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

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

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

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

Loïc De Cannière

Director

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

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

Mary Achan Oduka-Ochan

Director

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

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

Lydia Koros
Director

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

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

Jean-Louis de Montesquiou
Director

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

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

Albert Richards Otete
Director

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

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

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

Grace Namulinda Aliakai
Director

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

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

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

Robert Kirunda
Director

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

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

David Senoga
Alternate Director

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

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

Gervase Ndyanabo
Director

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

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

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

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

Jeremy Hadjenberg
Alternate Director

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

Patricia Kemirembe Katende
Company Secretary / Head, Legal

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

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

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

BOARD REPORT

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

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

DECISIONS AND RESPONSIBILITIES OF BOARD COMMITTEES

Board Assets and Liabilities Committee

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

Board Compensation Committee

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

Board Audit Committee

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

Board risk Committee

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

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

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

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

Board Credit Committee

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

Board Credit Committee

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

Board meetings

The quarterly meetings took place in the months of March, June, September and December, 2020. However, owing to the crisis mode that the Bank operated, the Board Assets and Liabilities Committee held a number of adhoc meetings on a monthly basis to check the health of the business and to provide guidance to Management which was operating in crisis mode.

Board attendance in 2020

The Board meetings in 2020 were well attended by both substantive Board members and in a few instances, the alternate Directors.

Board trainings

The Board underwent a risk management training programme from 17th November to 2nd December, 2020 facilitated by Strathmore University Business School. The programme was delivered under the theme; Risk Management & Prevention in a chaotic world and was deliberately selected to equip the Board with the necessary skills to provide the kind of oversight needed by the business during the pandemic that crippled business globally.

Resident Board members also attended the Annual Directors and Secretaries conference organized by the Institute of Chartered Secretaries and Administrators delivered under the theme; Thriving on disruption, corporate governance and the 4th industrial revolution.

Board Effectiveness

This is a principle of measuring the board effectiveness against its core mandate of providing oversight over Management. The COVID 19 pandemic and its effects on business prompted a review of all business operations for relevance and sustainability. In the same vein, the Bank made a conscience decision to overhaul some of its processes among which was the Board evaluation exercise by subjecting it to more objectivity. The now outsourced process is on course and the results are expected by end of June 2021. We are optimistic that the assessment will indicate the progress made by the Board in meeting its priorities against the odds presented by the pandemic and that the outcome will drive efficiencies in the operations of the Board and propagate a more defined trajectory in the post COVID -19 era.

AGM
The Annual General Meeting for the Company was held on the 25th June, 2020. The meeting was a hybrid with some members attending physically while others attended virtually owing to the travel restrictions imposed by governments internationally in a bid to control the spread of Covid-19.

The Annual General Meeting for 2021is scheduled to take place on 23rd June 2021.

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

Plans for 2021-2022
Review efficiency of Board and committee structures.
The Board plans to review allocation of current committee matters across the Board and its committees to inform the Board Agenda for the year 2021.

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

Having considered all the factors outlined above, the directors confirm that they have a reasonable expectation that the Bank will continue in operation and meet its liabilities as they fall due over the period of the assessment up to 31 December 2022. The Bank Strategic plan for the same period was also reviewed and approved by the Board.

The COVID 19 pandemic and its effects on business prompted a review of all business operations for relevance and sustainability. In the same vein, the Bank made a conscience decision to overhaul some of its processes among which was the Board evaluation exercise by subjecting it to more objectivity.

Celebrating
37
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trust every day

2020 HIGHLIGHTS
PICTORIAL


FINANCE
trust
BANK
One Hundred Thousand
Shillings Only
UGX 100,000
Bankers Cheque


MY UGANDA@58CAMPAIGN #MY CUSINE
Pay SIMON SIMO or Order
Date 21/10/2020
Uganda Shillings ONE HUNDRED
THOUSAND ONLY
UGX 100,000
For & on behalf of
FINANCE TRUST BANK
FINANCE TRUST BANK
Bankers Cheque


MY UGANDA@58CAMPAIGN #TRAVEL GOALS
FINANCE
trust
BANK
26-10-2020
One Hundred Thousand
Shillings
UGX 100,000
FINANCE TRUST BANK


FINANCE
trust
BANK
Putting Women First


trust


FINANCE
trust
BANK


trust
BANK
Putting Women First
TRUST WATER &
Water is Life


FINANCE
trust

NOTES

NOTES

Grow your Business with our **Trade Finance** Loans

- Get unsecured BID BONDS of up to **300Million**
- LPO Financing
- Invoice discounting
- Certificate discounting
- Guarantees and Contract Financing in just 24 hours.

Improve your cash flow and ensure that your working capital requirements are met.

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

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