FINANCE
trust
BANK

Putting Women First

ANNUAL REPORT 2013

ANNUAL REPORT 2013

Finance Trust Bank
Annual Report and
Financial Statements
for the year ended

December 31st 2013

UNITED **N**ATIONS
MICROFINANCE
CAPITAL **D**EVELOPMENT
FUND AWARD

Finance Trust Bank emerged top in youth financing in the **UNCDF** youth funded program for Sub Saharan Africa.

OIKO CREDIT AWARD

Finance Trust Bank values relationships.

Awarded to Finance Trust Bank for the outstanding business relationship.

*Keep your business on the move with the **Trust Current Account**, the account that works as hard as you do*

*The **Trust Current Account** is the account for individuals, companies and organisations that want to transact by cheque. So, open one today from any of the 33 branches countrywide and keep your business on the move.*

Benefits

- *5 free transactions per month*
- *One free monthly statement*
- *Cheque book*
- *Counter cheque leaves available*
- *SMS notifications on every transaction*

FINANCE trust BANK

Putting Women First

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About Us

Institutional Profile, Governance Structure and Strategic Focus 2012-2016

Background

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

The bank offers a broad range of financial products and services, including lending operations, deposits accounts, money transfer services, utility bills collection and insurance services to small, medium companies, SMEs, institutions and high-income individuals. Finance Trust Bank is also active in trade finance, asset finance and treasury services. With its headquarters in Katwe, Finance Trust Bank operates a network of 33 branches, countrywide, including one at Kalangala Islands. 70% of the bank's branches are located upcountry.

The Way we Work

At FTB, we believe everyone, especially women, deserve the opportunity to access affordable financing to build and maximize their value creation activities. This is what gives meaning and value to our business, and to the working lives of our employees. We are proud of our work with the lower cadres of society.

As a Business

As a business, we aim for excellence, and constantly challenge ourselves and our processes in search for the best solutions for our customers. This enables us to develop products that work for our customers.

We do business with integrity and place great value on honesty and clarity. We respect the laws of our country and adhere to good corporate governance practices; we maintain high standards in accounting and reporting; we deliver long-term, sustained shareholder value by protecting and making the most effective use of FTB assets. Friendliness defines our relationships with our customers and our suppliers. We believe in equality for all and respond in equal measure to all our customers.

As an Employer

We value our employees. They are our greatest assets and it is our aim to make FTB a great place to work. Our employees are entitled to a safe and healthy working environment: one in which personal talent and merit are recognized, diversity is valued, privacy is respected, and the balance between professional and personal life is taken into account. We believe in offering our employees a stimulating environment, exciting personal opportunities and a chance to make a difference. We encourage an atmosphere of openness, courage, empathy and respect, so that all our employees feel free to come forward with their questions, ideas and concerns.

Our Vision

To be the preferred and affordable Microfinance Bank

Our Mission

To provide customized fianancial services to low and medium income people especially Women for poverty reduction with a focus on excellent customer experience and accessibility.

Our Core Values

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

Integrity

As a company we stand by our personal principles of honesty, honor, and live by these principles as individuals, and as a team. Integrity supports our dedication to give honest service, both internally and externally, and upholds our exceptionally high standard of excellence and ethical conduct.
We demonstrate our integrity when we work with different members of our society, with honesty and respect for others, by honoring our commitments, accepting responsibility for our actions, being ethically unyielding and honest, and inspiring trust by saying what we mean and matching our behaviors to our words.

Friendliness

We build and maintain good relations amongst ourselves and with our customers.
We work as a team, care for each other and respect one another. We deliberately cooperate and help each other to achieve both individual and team goals.

Equity

We are just, fair and impartial people that embrace diversity. We acknowledge our differences and see them as an advantage. We uphold justice, fairness and impartiality in our conduct and decision making.
Our driving force is the desire to leverage equity with internal and external stakeholders and to be recognized as leaders in diversity and equity.

Responsiveness

We are responsive to the needs of customers in the most respectful, solution-oriented and helpful manner possible. We demonstrate responsiveness by taking the initiative to anticipate needs and being accountable for making sure that appropriate action is taken to resolve issues. We truly believe in the benefits of the services we offer by continuously designing and marketing products and services that make the lives of our employees and customers easier, more efficient and more profitable.

Our Customers

Finance Trust Bank serves micro, small and medium entrepreneurs and salary earners who are involved in a wide range of economic activities including:

- **Agriculture**, including crop and animal husbandry, poultry keeping, produce trading and fishing.
- **Services** including restaurants and bars, beauty shops, schools and medical centers (clinics and drug shops).
- **Trading** including groceries, wholesaling and retailing assorted merchandises, motorspare parts and second hand clothes, timber and hardware.
- **Manufacturing** including hardware, bakeries, carpentry, tailoring etc.

Our Services

Deposit products

- Savings Accounts
- Current Accounts
- No fee Accounts
- Teen Classic (Youth 12-17)
- Youth Progress (Youth 18-24)
- Girls Choice Savings Account (Girls 10-19)
- Agro-Savings
- Sacco Account
- Fixed Deposit Accounts

Micro-insurance

- We extend loan insurance services to our borrowing customers. This service is indirectly provided through a licensed insurer, Lion Assurance
- We provide affordable quality healthcare insurance to customers on the Mama's Safe accounts.

Loan products

- Mama Safe Loans (Women only product)
- Bank Overdrafts
- Salary Loans
- Individual Business loans for small and medium enterprises
- Group loans (15-30 members) for micro-enterprise development
- Personal Development loans
- School fees loans
- Easy Advance
- Asset Financing
- Agricultural loans
- Guarantees

Other Services

We provide our customers with the following money transfer services:

- RTGS and EFT's
- Western Union Money Transfer
- Moneygram Money Transfer
- Mobile money services through MTN, Msente & Airtel money.
- Collection accounts through which anyone can pay their utility bills
    - E Water
    - DSTV

Ownership and Capital Structure

Finance Trust has a varied ownership structure comprising of international and local shareholding.

The Board of Directors

The Board of Directors is composed of highly committed persons with good expertise and a wealth of experience with a mix of local and international Directors. The board meets quarterly and the Annual General Meeting is held once a year. The Board has 5 committees and the full board namely:

- Compensation Committee
- Audit Committee
- Assets and liabilities Committee
- Board Risk Committee
- Credit Committee

The Board Compensation Committee (BCC)

This is composed of the Chairperson and at least three Board members. All the members on this committee are non-executive directors. The Committee meets quarterly and is charged with the responsibility of;

- Ensuring that the oversight function is effectively performed.
- Strengthening policy formulation and ensuring that Finance Trust is effectively guided by adequate policy based on best practice, changing environment and the law.
- Ensuring ethical conduct, harmony and excellent performance of the Executive Director, management and staff.
- Formulating, reviewing upholding and entrenching the vision, mission, organizational values, philosophy and strategy in the whole organization.
- Handles renumeration and welfare of all staff.

The Board Risk Committee (BRC)

The BRC ensures that the institution achieves its goals by ascertaining that it has adequate, effective and efficient systems of internal control and processes that are functioning to pro tect the institution's assets and minimize bank wide risks.

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

- Ensuring quality, integrity and reliability of the institution's overall risk management practices and helps the Board in execution of its duties in relation to corporate accountability and associated risks in terms of management, assurance and reporting.
- Reviewing and assessing the integrity of the risk control systems and ensuring that the institution's risk policies, procedures and strategies are effectively managed through reporting.
- Monitoring external developments relating to the practice of corporate accountability and reporting of specific risks, including emerging and prospective impact.
- Defining, monitoring and ascertaining the level of appetite for the institution in all its existing and prospective products and services.

- The Committee reviews and provides independent objective oversight of the information presented by management, taking, account of risk concerns raised by management in the Audit Committee, Asset and Liability Committee meetings on financial, business and strategic risk.

The Board Credit Committee (BCC)

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

- Deliberate and consider loan applications beyond the discretionary limits of the management commitee.
- Review loans approved by the management commitee.
- Direct, monitor reviews and consider all issues that may materially impact on the present and future quality of the banks' credit risk management.
- Ensure that the credit policy and risk lending limits are reviewed at least on an annual basis and as and when the environment so dictates.
- Reports on the bank's compliance risk on credit matters, that is the risk of legal or regulatory sanctions, financial loss or damage to the reputation of the bank as a result of its failure to comply with guidelines and standards of good practice.
- Monitor management's compliance with all other regulatory requirements e.g. BOU Act, FIA Act, BOU PR, and circulars issued by BOU.

The Audit Committee

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

- Assuring credibility and transparency in the financial reporting process.
- Strengthening oversight of internal control and monitoring of operations.
- Assuring compliance with internal policy and all legal and regulatory requirements.
- Reviewing the effectiveness of the internal audit function and the External Auditor's proposed audit scope and approach.
- Providing an open avenue of communication between internal audit, external audit and the Board of Directors.

The Assets and Liabilities Committee (ALCO)

This is composed of a Chairperson and at least three Board members appointed by the Board. The Assets and Liabilitiescommittee meets quarterly and has the following responsibilities;

- Protecting the shareholders and depositors value.
- Maintaining sufficient liquidity to cover cash flow requirements and invest idle cash.
- Maintaining an efficient balance of productive and non-productive assets, and an effective proportion of liabilities and equity for maximum profitability.
- To maintain sufficient capital to cushion against business risks.
- To price the products in a manner that supports asset and liability management and maximizes Finance Trust earnings.

Board of Directors


Hon. Eng. Irene Muloni
Board Chairperson


Annet N. Mulindwa
Managing Director


Dennis Kakeeto
Executive Director


Lydia Ochieng Obbo
BCC / ALCO - Member


Judy Ngarachu
BCC / ALCO / Audit / BRC - Member


Grace Namulinda Aliakai
BCC / Audit / BRC - Member


Rtd Justice Mary Maitum
BCC / ALCO - Member


Jean Louis de Montesquiou
BCC / ALCO - Member


Tor Gull
BCC / ALCO - Member


Jeremy Hajdenberg
BCC / ALCO - Member


Patricia Kemirembe Katende
Company Secretary / Head, Legal

Senior Management


Annet N. Mulindwa
Managing Director


Dennis Kakeeto
Executive Director


Patricia Kemirembe Katende
Company Secretary /
Head, Legal


Ruth Doreen Mutebe
Head, Internal Audit


Rachael Nantongo
Head, Banking Operations


Clare G. Tumwesigye
Head, Marketing

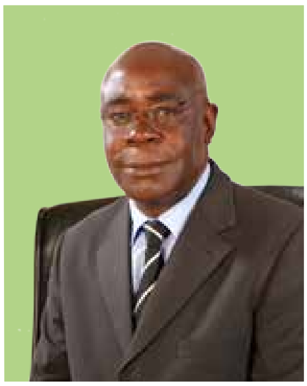

Monica Sanyu
Head, Human Resources


Christine Namata
Head, Finance


Mark Charles Mwanje
Head, Risk


Anthony Gumira
Head, Credit


George William Musanya
Head, ICT


Evarest Nsereko Kyewalabye
Manager, Compliance

Corporate Social Responsibility

Finance Trust Bank identifies with the communities in which it operates and continually supports them in improvement of their livelihoods and general wellbeing. Finance Trust Bank supports initiatives that add value to the people and the environment.

Helping girls stay in school

Finance Trust Bank has a girls only savings account called the Girls Choice Savings Account. The account is availed to girls in and out of school who are between the ages of 10 – 19 years. Through interaction with the girls in their girls groups, the bank discovered that some of the girls are forced to stay home as they go through the normal biological situations sometime every month. Finance Trust Bank has decided to support these girls

Left & Right: A Girls Choice officer trains The Finance Trust Bank Girls Choice account holders how to use the rewashable sanitary pads
Below: Girls show off their sanitary towels

by providing them with washable sanitary towels that assist them to keep in school during that time of the month. The washable sanitary pads last a full year before replacement, and Finance Trust Bank will be on hand to provide the replacement.

Financial Education

Financial education is a fundamental need for economically active men and women but perhaps more for women and girls who have limited access to money and face various hurdles in trying to do so. Financial education addresses the need to effectively use money, budgets and spending as well as financial planning.

At Finance Trust Bank, we believe that this investment in the customer goes along way in ensuring a loyal customer with sound financial judgement. That is why we go the extra mile of training both our customers and potential customers in Financial Education. Currently, Finance Trust Bank has trained over 5000 youth on our girls choice program and youth start program in Financial Education, in addition to over 1000 women trained in Financial Education.

Left: Women being trained in financial literacy
Right: Financial literacy beneficiaries pose for a photo

Finance Trust Bank donated 5 boxes worth 220 dozens of books to a community outreach centre in Kumi district. This initiative was in support of the Bernard Van Leer Foundation and PSFU partnership where Children Cooperative centres were set up in Kumi, Apac, Nakapiripirit district.

Finance Trust Bank participated in the consecration of the cultural chief of the Babukusu people in Mbale.

In Support of Culture

The culture and heritage of our customers is something we regard highly and that is why when the Bank was called upon to participate in the consecration of the cultural Chief of the Babukusu people in Mbale, Finance Trust donated handsomely to the occassions.

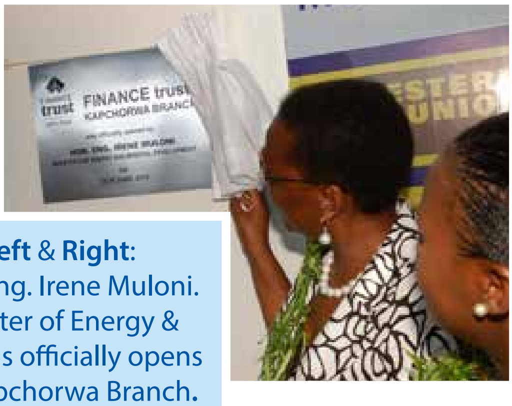
The Bank's Communities and Sanitation

The bank considers the communities in which it operates as being an integral part to its success. That is why when approached, the Bank donated protective gear to the staff of Kayunga Town Council to be used in subsequent cleaning activities.

Sustainability Report

Finance Trust Bank transformed into a commercial bank in November, 2013 among other things to increase our product offering, improve our earning capacity through introduction of new products and services and grow our portfolio in the SME category. The acquisition of the Commercial Bank License allows us to offer a wider range of financial products and services, including Current accounts, Bank overdrafts, and also increase the loan amounts to our customers as well as increase the repayment period for loans for both customers and staff. We are now able to serve both low and high income earners.

Finance Trust Bank increased its locations to 31 in 2013 by opening a branch in Kapchorwa. The opening of multiple locations has helped Finance Trust Bank meet the needs of Ugandans by giving customers access to Financial services that are affordable and customized to meet their divergent financial needs as well as reduce poverty in the communities. The new branch at Kapchorwa was opened with support of aBi Trust whose mandate is to increase financial inclusion for previously underserved communities in Kapchorwa.



Left & Right: Hon. Eng. Irene Muloni. Minister of Energy & Minerals officially opens the Kapchorwa Branch.

Left: Guests at the launch. **Right:** The interior of the new branch

With the introduction of youth start project and the introduction of the youth specific savings products, Finance Trust Bank identified a need among the young entrepreneurs on our youth progress account for loans. Finance Trust Bank carried our market research to ascertain the magnitude of need and viability of the youth loans when introduced. The market research findings revealed a great need to youth specific loans that led to product development of youth specific loans. The introduction of these youth loans is to commence in 2014.

Finance Trust Bank continues to build good will of the communities it serves by continually providing work gear for its agriculture customers like gumboots, tarpaulins, gloves, overalls. We are continuing to train our youth in financial Education and reproductive health as value added services for our youthful clientele. This we hope will help them make informed decisions about money and how to use it to their benefit.

At Finance Trust Bank we believe our employees are our greatest assets, we therefore continue building them, recognising personal talent and merit, offering career growth and creating an environment with a balance between their professional and personal lives. All these are geared towards staff retention which is very vital for every organisation.

At FTB we have embedded client protection principles in everything we do to protect our clients, businesses and the Industry as a whole. We are fully transparent in the pricing, terms and conditions of all our financial products. We work with our clients to ensure they do not borrow more money than they can repay or use products that they do not need. We employ respectful collection practices and adopt high ethical standards in the treatment of clients. We provide clients with various mechanisms to address their complaints so they can be served more effectively and we ensure that client data remains private.

Corporate Information

Bankers

Citibank Uganda Limited
Centre Court,
4 Ternan Avenue Nakasero
P.O. Box 7505
Kampala, Uganda

Bank of Africa Uganda Limited
Plot 24 Jinja Road
P.O. Box 2750
Kampala, Uganda

DFCU Bank Limited
Plot 2 Jinja Road
P.O. Box 70
Kampala, Uganda

Centenary Bank
Talenta House
Plot 7, Entebbe Road
P.O. Box 1892
Kampala, Uganda

Post Bank Uganda Limited
Plot 4/6 Nkurumah Road
P.O.Box 7189
Kampala –Uganda

Stanbic Bank Uganda Limited
IPS Branch
P.O. Box 973
Kampala, Uganda

Diamond Trust Bank Uganda Limited
Diamond Trust Building
P.O. Box 7155
Kampala

Solicitors

Mr. Kimuli Moses
Kimuli & Co. Advocates
Apartment 1-3C Fumu Close
Off Wampewo Avenue, Kololo
P.O.Box 22593
Kampala, Uganda

Secretary

Mrs. Patricia Kemirembe Katende
P. O. Box 6972
Kampala, Uganda

Auditors

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

Chairperson's Statement

Hon. Eng. Irene Muloni

" The banking licence put us on a platform to compete favourably"

Dear shareholders,
On behalf of the Board of Directors, It gives me great pleasure to present to you, the annual report for Finance Trust Bank for the year 2013.

As a newly licensed Commercial Bank in Uganda, our strategic vision is to position the bank as the preferred and affordable micro finance Bank. This was enabled by the receipt of the banking license which put the bank on a platform to compete favorably in the commercial banking environment.

The Economy

The year 2013 was a turning point for the global economy and more so the financial sector in Uganda. The Ugandan economy continued to experience slow growth, with underperformance cutting across most sectors. While on the global front, majority of the developed economies during the year grappled with the lingering effects of the financial crisis and the associated challenges of selecting the most appropriate fiscal and monetary policies required to improve their economies,

> *The bank achieved 39.7% growth in total assets mainly due to increase in share capital of 203.8%, and increase in customer savings of 39.9%.*

In Uganda, consumer demand for the year fell by an estimated 3.5% which led to a decline in economic activity. Annual headline inflation for the year averaged at 6.7% registering improvement from the previous year which averaged at 18%. There was increase in the international crude oil prices coupled with the depreciation of the Ugandan shilling against the dollar for most of the year. The effects of the global financial crisis affected Treasury bill rates and the cost of borrowing for Finance Trust during the year 2013. The financial sector remained relatively liquid but experienced significant growth in the none performing assets especially in the agricultural sector.

Financial performance

Finance Trust Bank managed to register solid growth despite the ever increasing competition. The bank achieved 39.7% growth in total assets mainly funded from the 39.9% growth in customer deposits, 174.7% growth in shareholders' funds due to improvement in profitability and attraction of additional equity. During the same period, the bank registered a 32.5% drop in Company borrowings as the bank continued to pursue the strategy of growing customer deposits to fund the growing business. Investments increased from Ugx 0.5bn to Ugx 6.0bn. Loans to Customers grew by 24.9% due to aggressive mobilization efforts by staff, better customer service and improved turnaround time. Finance Trust achieved a 39.9% growth in deposits mainly as a result of aggressive mobilization efforts and increased outreach.

Interest income grew by 17.4% due to the growth in the loans and investments book. The cost of funds increased slightly by 0.6%. Administration costs increasedv marginally (8.8%) and much of these related to transformation costs.

During the year 2013, the Bank raised additional equity amounting to shs 17.5billion. This was raised through private placements from current and new shareholders. The new shareholders who came on board are: Investors & Partners Afrique Entrepreneurs (I&PAE), RIF North 1, and Progression Eastern African Microfinance Equity fund. I welcome the new shareholders and look forward to working with them and tapping into their varied experience.

The total staff strength grew by 19% from 389 staff in 2012 to 463 staff in 2013. In order to prepare staff for transformation, change management training was done at all levels in addition to the continuous team building activities which helped improve employee relationship management. As a result, during 2013, staff turnover reduced to 6% from 9% in 2011 and 2012. As more initiatives are put in place especially in skills development and remuneration, we anticipate that the trend will continue to improve during the year 2014 and beyond.

> *"We view 2014 with deeper optimism in light of the fact that now Finance Trust is a commercial bank and will be able to offer varied range of products and services ..."*

Branch Network Expansion

In line with the strategic plan to increase outreach, a rural branch was opened in Kapchorwa to tap into their mainstream activity which is agriculture. This is in addition to providing ATM access for our clients through the interswitch network. We also embarked on the mobile banking project that will enable our customer's access financial services using their mobile phones; this project is expected to be rolled out in the year 2014.

Outlook

We view 2014 with optimism in light of the fact that now Finance Trust is a commercial bank and will be able to offer a varied range of products and services to our current and future clients. We are looking forward to the continued global economic recovery, optimization of the oil in Western Uganda and increased trade in the East African region.

Appreciation

I would like to extend our sincere gratitude to all our stakeholders including our customers who have vested great trust in us and in our services; I also want to appreciate our esteemed shareholders for their unwavering support. To our employees, your dedication and utmost commitment to the vision of the Bank is highly commendable and we appreciate you.
To my fellow board members, your strong leadership competence in overseeing the affairs of the Bank and keeping management focused on the shared vision cannot be over emphasized.

The Board and Management are committed to building a strong, customer responsive and profitable bank delivering on its mission and vision.

Hon. Eng. Irene Muloni
CHAIRPERSON, BOARD OF DIRECTORS

Do you wish to purchase seeds, pesticides, fertilisers, farm implements, and livestock?

Agro Production Loan

The Agro–Production Loan is specifically tailored for farmers who wish to increase their agricultural production yields and is offered to individuals, joint, groups, partnerships, associations and companies dealing in agricultural production.

It is available at all Finance Trust's branches countrywide.

Benefits

- Increase your working capital
- Pay loan in small manageable instalments
- Enjoy low interest rates
- Pay loan over a long period of time
- Farmers in groups can get up to 4 million per farmer
- Grace period

Requirements

- Open a Savings account
- Farmers must be 18 years and above
- Collateral required
- 1 reputable guarantor
- Farmer should have a verifiable agricultural activity with at least 2 seasons
- Groups should have 15–30 members
- Groups should have at least 5 members with similar agricultural activity

FINANCE trust BANK

Putting Women First

MD's Statement

Mrs. Annet N. Mulindwa

" The bank continues to reach out and penetrate the rural areas to facilitate increased access to our financial products"

Overview

On the 11th November 2013, Finance Trust Bank was licensed as the 26th Commercial Bank operating in Uganda. This was a key milestone towards achieving the institution's goals and objectives of increasing outreach to the low and medium income people in Uganda especially women. The annual report presents the Bank's financial and social performance for the financial year ended 31 December 2013. The report provides an overview of the banks' developments as it transitions into commercial banking with special focus on the financial and social performance as key drivers of the banks' sustainability.

Financial Performance

Finance Trust Bank registered improved financial performance in 2013. This growth is largely attributed to strategies implemented during the year based on the three pillars of growth, operational excellence and excellent customer experience, in addition to the recovery of Uganda's economy characterized by falling inflation to 5.8% from 19.8% the previous year.

The bank registered growth in the loan book of 24.9%, while the deposit book grew by 39.9% from Ugx 32.5 Billion in 2012 to Ugx 45.4 Billion in 2013. Equity finance grew by 174.7% and the Bank's net income before impairment for credit losses grew by 11.7%. The Improvement in fee and commission income led to a 13.9% increase in the bank's net income from operations. The bank's total assets stood at Ugx 92.2Billion as at the end of 2013.

> *2013 saw growth in the bank's loan book of 24.9%, while the deposit book grew by 39.9% from Ugx 32.5Billion to Ugx 45.4Billion, and the equity finance grew by 174.7% Our net income before impairment for credit losses grew by 11.7%.*

The Bank continued to reach out and penetrate the rural areas to facilitate increased access to our products by the existing and prospective clients. In 2013 we extended our branch network to 31 branches, by opening a new branch within Kapchorwa targeting agribusiness in Kapchorwa district.

Core banking system

On the information technology front, the 2013 financial year provided the bank the opportunity to roll out a new core banking system called Bankers Realm (BR.Net) which is more scalable and allows multiple upgrades as may be required by our changing business environment. The change over happened successfully on 2nd February 2013 and the bank has since stabilized on the system. In addition, we began and will continue seeking technologically driven innovation to develop solutions designed to take the bank forward in an effective manner, thereby enhancing the financial services offered to clients.

Transformation into a Tier 1 commercial bank

The major highlight of the year 2013 was the receipt of the Tier 1 commercial banking license which was granted on 11th November 2013. This was a momentous milestone in our 30-year history, serving the public as a microfinance institution and laying the foundation necessary to ensure that Finance Trust is able to take its rightful place as a significant player in Uganda's financial sector. While we have satisfactorily served the Micro and small income earners in Uganda, making the transition to Commercial Banking has opened up new opportunities for the bank to reach the medium and commercial markets in addition to enhancing the financing path for our existing customers.

> *The bank's primary focus for 2014 and beyond is to grow its free savings book and income through services it can now offer as a fully- fledged commercial bank.*

This milestone, coupled with our existing range of traditional banking products, has come with the introduction of checking accounts that were rolled out fully to clients in January 2014. This has answered the rising demand for current accounts by our clients and complemented our payment channels.

Consumer protection

Finance Trust Bank has fully embraced the consumer protection principles of Transparency, fairness, reliability, responsibility and complaint resolution. These principles have been incorporated in the Bank's operating policies and procedures in line with the regulatory requirement. The Bank recognizes these principles as pillars for sound corporate governance and increased accountability of the bank to the public and its clientele. In doing our business, we actively strive to give effect to sound and ethical governance behavior that has enabled us to remain a good corporate citizen.

Looking ahead

The bank's primary focus for 2014 and beyond is to grow its free savings book and income through services it can now offer as a fully- fledged commercial bank. We intend to create additional and alternative revenue streams within the fields of mobile banking and foreign exchange business.

Appreciation

The Bank is fortunate to have professional and dedicated management and staff who have continued to demonstrate their commitment to serving the interests of the company as a whole through execution of the Bank's broad range of responsibilities. I wish to thank them for their dedication, and I have every confidence that they will rise to the challenge and continue to uphold the mission of the Bank that includes putting women first.

We give credit to the Board of Directors for the continuous guidance of the bank and strategic direction that has kept it on an upward course in spite of the economic challenges we have faced in recent times. Their business acumen is an invaluable asset to our financial institution.

To all our stakeholders, we extend our profound thanks for the support you extend to the company. You are the driving force of our business success.

In conclusion, we recognize that growth in Uganda's financial sector will not come without its challenges, however, having developed a full range of products, which classifies our business as a fully-fledged commercial bank we are confident about being able to continue showing positive growth and will set-out to significantly grow our client base across all sectors of the market. We commit ourselves to further growth and development of the bank as a mainstream, commercial banking institution.

We thank God, and pray that He will continue guiding us to success in future.

Annet Nakawunde Mulindwa
MANAGING DIRECTOR

Directors' Report

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors submit their report together with the audited financial statements for the year ended 31 December 2013, which disclose the state of affairs of Finance Trust Bank Ltd ("the Bank").

BACKGROUND

Finance Trust Bank was operating as an MDI under the name Uganda Finance Trust since 1984. In 2012, the bank applied for a license from the Central bank to enable it to operate as a commercial bank under the financial institutions Act 2004 (FIA). This necessitated increasing core capital to a minimum of Ushs 25 billion as required by the FIA.

The Directors and shareholders resolved to increase the company's share capital and issue additional shares to new investors and existing shareholders. As a result, the company's shareholding as at 31 December 2013 is as follows:

Shareholder	Percentage of shareholding
Oikocredit	20.27%
RIF North 1	18.93%
Progression East African Micro Finance Equity Fund (PEAMEF)	18.93%
UWT - Uganda Women Trust	17.37%
I&P Afrique Entrepreneurs	14.7%
Founder members	9.2%
Others	0.65%
Total	**100%**

On 11 November 2013, the license was granted to operate as a commercial bank by the Bank of Uganda under the Financial Institutions Act 2004.

PRINCIPAL ACTIVITIES

The Bank is engaged in both microfinance and commercial banking business, providing deposit and loan services to the micro, small and medium enterprises.

RESULTS

The net profit for the year is Shs 1,742 million (2012: Shs 1,530 million). The Directors do not recommend the payment of dividend for the year ended 31 December 2013. (2012-Nil)

DIRECTORS

The Directors who held office during the year and to the date of this report unless otherwise stated were:

Hon. Eng. Irene Muloni	Board Chairperson
Mrs. Annet Nakawunde Mulindwa	Managing Director
Mr. Dennis Kakeeto	Executive Director (Appointed on 21st May 2013)
Mrs. Grace Aliakai	Director
Mrs. Lydia Ochieng Obbo	Director
Mr. Jeremy Hadjdenberg	Director – Alternate to Mr. Jean-Louis
Mr. Tor G. Gull	Director – Alternate to Ms. Judy Ngarachu
Justice Mary Maitum	Director
Mr. Jean-Louis de Montesquiou	Director
Ms. Judy Ngarachu	Director

AUDITOR

The auditors KPMG, being eligible have expressed willingness to continue in office in accordance with section 167 of the Uganda companies Act.

Approval of the financial statements:
These financial statements were approved by the board of Directors on 19th March 2014

BY ORDER OF THE BOARD SECRETARY

Date: 31st March 2014

Directors' Statement

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting standards and in the manner required by the Companies Act of Uganda and the Financial Institutions Act 2004 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.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Under the Ugandan Companies' Act, the Directors are required to prepare financial statements for each year that gives a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records that disclose with reasonable accuracy the financial position of the company.

The directors accept responsibility for the financial statements set out on pages 7 to 57 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, Ugandan Companies' Act, and Financial Institution's Act 2004. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the profit and cash flows for the year ended 31 December 2013. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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 are fairly presented in accordance with the International Financial Reporting Standards, Ugandan Companies' Act and Financial Institutions Act 2004.

Approval of the Financial Statements

The financial statements, as indicated above, were approved by the board of directors on 19th March 2014 and were signed on its behalf by:

Board Chairperson

Managing Director

Date: 21st March 2014

Independent Auditors' Report

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF FINANCE TRUST BANK LTD

Report on the financial statements

We have audited the accompanying financial statements of Finance Trust Bank Ltd set out on pages 7 to 57 which comprise the Statement of financial position as at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As stated on page 5, the company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Ugandan Companies' Act and Financial Institutions Act 2004 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.

Auditor's responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion these financial statements give a true and fair view of the state of the financial position of Finance Trust Bank Ltd as at 31 December 2013 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, Financial Institutions' Act 2004 and have been prepared in the manner required by the Ugandan Companies' Act.

Report on other legal and regulatory requirements

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

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

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

iii) The company's Statement of Financial Position and Statement of Comprehensive Income are in agreement with the books of account

KPMG
Certified Public Accountants
P O Box 3509
Kampala, Uganda

Date : 24th April 2014

Achieve your business goals with the

Trust Asset Financing Loan

New and existing Finance Trust Bank customers, individuals and organizations, who wish to access financing for movable income generating assets valued at 3 million shillings and above.

Benefits

- Enabling Finance Trust Bank customers to acquire movable income generating assets valued at affordable interest rates.
- The asset should clearly be identifiable, movable, durable and insurable e.g.
- Vehicles/Motorcycles – Commercial only
- Plant and machinery - manufacturing, processing plants, etc.
- Equipment - printing machines, factory plants, office equipment, professional equipment etc.
- Yellow metal-bulldozers, front and loaders, graders etc.

Head Office

Block6, Plot 121& 115 Katwe. P.O. Box 6972, Kampala
Tel: 0414 341275/255146, **Fax:** 0414 237046
Email: contact@financetrust.co.ug **www.financetrust.co.ug**

FINANCE trust BANK

Putting Women First

Table of Contents II

Financial Statements

Statement of comprehensive income	Notes	2013	2012
		Shs '000	Shs '000
Interest income	4	19,721,117	16,794,098
Interest expense	5	(4,347,575)	(4,319,622)
Net interest income		**15,373,542**	**12,474,476**
Net fees and commission income	6	8,906,539	8,047,132
Other Income	7	507,029	1,331,225
Grant Income	25	126,415	119,722
Designated fund income	22	577,879	429,365
Total Operating Income		**25,491,404**	**22,401,920**
Impairment losses on loans and advances	12	(1,049,171)	(969,071)
Net income after impairment		**24,442,233**	**21,432,849**
Staff Costs & other benefits	8(a)	(12,785,316)	(10,364,381)
Depreciation & Amortization	14 & 15	(1,680,661)	(1,229,643)
Operating expenses	8(b)	(9,433,139)	(8,669,614)
Profit before income tax		**543,117**	**1,169,211**
Income tax	9	1,199,318	361,073
Profit for the year		**1,742,435**	**1,530,284**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,742,435**	**1,530,284**

The accounting policies and notes set out on pages 11 to 57 form an integral part of these financial statements

Statement of financial position	Notes	2013	2012
		Shs '000	Shs '000
ASSETS			
Cash and Bank Balances	10(a)	13,218,092	8,008,757
Deposit with Bank of Uganda	10(b)	50,000	50,000
Placements with other Banks	11	6,018,642	519,662
Loans and advances to customers	12	60,191,453	48,202,973
Due from related parties	23	32,115	14,337
Other assets	13	3,279,672	3,390,961
Current income tax recoverable		212,379	212,379
Deferred income tax asset	16	1,497,146	297,828
Property and equipment	14	5,770,326	4,844,570
Intangible assets	15	1,981,060	505,091
Total assets		92,250,885	66,046,558
LIABILITIES			
Customer deposits	18(a)	45,414,605	32,451,543
Loan guarantee fund	18(b)	681,907	490,149
Bank overdraft	19	-	3,543,964
Other liabilities	20	3,264,351	2,730,358
Borrowed funds	21	12,601,873	13,699,527
Finance Lease	31	172,546	76,457
Designated funds	22	246,108	512,045
Due to related parties	23	-	1,340,888
Employee benefits provisions	24	288,623	239,457
Capital grants	25	516,493	381,670
Total liabilities		63,186,506	55,466,058
EQUITY			
Share capital	26	26,085,402	8,585,402
Regulatory credit risk reserve	27	397,866	580,452
Retained earnings		2,581,111	1,414,646
Total equity		29,064,379	10,580,500
Total equity and liabilities		92,250,885	66,046,558

The financial statements on pages 7 to 57 were approved for issue by the Board of Directors on 21st March 2014 and signed on its behalf by:

Board Chairperson

Managing Director

The accounting policies and notes set out on pages 11 to 57 form an integral part of these financial statements

Statement of changes in equity	Notes	Share Capital Shs '000	Share Premium Shs '000	Retained Earnings Shs '000	Proposed Dividend Shs '000	Regulatory Credit Risk Reserve Shs '000	Total Equity Shs '00
Year ended 31 December 2012							
At January 2012	**26**	**5,868,500**	**-**	**2,716,902**	**-**	**464,814**	**9,050,216**
Profit for the year		-	-	1,530,284	-	-	1,530,284
Transfer to regulatory credit risk reserve		-	-	(115,638)	-	115,638	-
Transactions with owners:							
Ordinary share issue		2,716,902	-	(2,716,902)	-	-	-
31 December 2012		**8,585,402**		**1,414,646**	**-**	**580,452**	**10,580,500**
At December 2013							
At I January 2013	26	8,585,402		1,414,646	-	580,452	10,580,500
Profit for the year		-	-	1,742,435	-	-	1,742,435
Transfer from regulatory credit risk reserve	27	-	-	182,586	-	(182,586)	-
Transactions with owners:							
Issue of ordinary shares		17,500,000	-		-	-	17,500,000
Cost of raising equity		-	-	(758,556)	-	-	(758,556)
31 December 2013		**26,085,402**	**-**	**2,581,111**	**-**	**397,866**	**29,064,379**

The accounting policies and notes set out on pages 11 to 57 form an integral part of these financial statements

Statement of cash flows	Notes	2013	2012
		Shs '000	Shs '000
Cash flows from operating activities			
Interest receipts		18,997,077	16,643,049
Interest payments		(4,285,612)	(4,338,372)
Net fee and commission receipts		9,136,856	7,782,423
Other income received	7	340,745	1,256,554
Recoveries from loans previously written off	7	164,069	68,123
Payments to employees and suppliers		(18,447,348)	(18,840,742)
Income tax paid		-	-
Cash flows from operating activities before changes in operating assets and liabilities		5,905,787	2,571,035
Changes in operating assets and liabilities:			
- loans and advances		(11,433,917)	(7,222,296)
- other assets		111,288	(1,804,789)
- customer deposits		12,772,291	6,358,105
- loan guarantee fund		191,758	23,613
- other liabilities		153,088	(1,030,136)
- Employee benefits		(205,956)	(1,749,562)
- amounts due to related parties		(1,358,667)	(333,529)
Net cash from operating activities		**6,135,672**	**(3,187,559)**
Cash flows from investing activities			
Placements with other banks		(5,498,980)	1,667,789
Purchase of property and equipment	14	(2,077,128)	(1,243,132)
Purchase of intangible assets	15	(2,021,121)	(247,532)
Proceeds from sale of property and equipment		17,306	35,063
Net cash used in investing activities		**(9,579,923)**	**212,188**
Cash flows from financing activities			
Increase in designated funds(excluding expenditure on capital items)	22	4,698	205,069
Net movement in borrowings	21	(5,776,811)	1,895,349
Ordinary share issue		17,500,000	-
Net cash from financing activities		**11,727,887**	**2,100,418**
Net increase in cash and cash equivalents		**8,283,636**	**(874,953)**
Cash and cash equivalents at 1 January		4,984,456	5,859,409
Cash and cash equivalents at 31 December	**29**	**13,268,092**	**4,984,456**

The accounting policies and notes set out on pages 11 to 57 form an integral part of these financial statements

Reporting Entity

1. REPORTING ENTITY

Finance Trust Bank (the "Bank") is a company incorporated in Uganda under the Companies Act as a limited liability company, and is domiciled in Uganda. The Bank is primarily involved in the business of commercial banking (retail, corporate and investment banking) and the provision of related services and is licensed under the Financial Institutions Act, 2004. The address of its registered office is:

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

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of accounting

The Financial statements have been prepared in accordance with International Financial reporting Standards (IFRS). The Financial statements were authorized for issue by the Board of Directors on 21st March 2014.

b) Basis of Measurement

The Financial statements have been prepared on the historical cost basis except for the following:

- Derivative Financial instruments are measured at fair value
- Financial instruments at fair value through Profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Investment property is measured at fair value
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

c) Functional and presentation currency

These financial statements are presented in Uganda shillings, which is the Bank's functional currency. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

d) Use of estimates and judgments

i) Assumptions and estimates of uncertainties

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reported period. The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making the judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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 Bank regularly reviews its assets and makes judgments in determining whether an impairment loss should be recognized in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2013 is set out below in relation to the impairment of financial instruments and in the following notes:

Note (3d) - determination of fair value of financial instruments with significant unobservable inputs;

Note (16) - recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used;

Notes (30)- recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

ii) Impairment losses on loans and advances
The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral.

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the head of the business unit (Credit Risk function).
A collective component of the total allowance is established for:
Groups of homogeneous loans that are not considered individually significant; and
Groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using, a formula approach based on historical loss rate experience. Management applies judgment to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date.
Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk when there is objective evidence to suggest that they contain impaired items, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimated future cash flows, the model assumptions and parameters used in determining collective allowances

iii) Determining fair values
The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument

e) Revenue recognition

i) Interest income and expense
Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the

financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.
When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.
The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.
Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- Interest on available-for-sale investment securities calculated on an effective interest basis;

Interest income and expense on all trading assets and liabilities are considered to be incidental to the bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.
Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of comprehensive income.

ii) Fees and commission income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate as above.

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

iii) Other income

Other income comprises gains less losses related to trading assets and liabilities and includes all realized and unrealized fair value changes, interest and foreign exchange differences.

f) Financial assets and liabilities

i) Recognition
A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. Financial instruments held by the Bank include balances with Bank of Uganda, loans and advances, investments in government securities, balances with banks, deposits, and derivatives.

The bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification
Management determines the appropriate classification of its financial instruments at the time of purchase and re-evaluates its portfolio on a regular basis to ensure that all financial instruments are appropriately classified. The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics.

- Held for trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.
- Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.
- Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Available for sale assets are recognized on the date they are transferred to the bank.
- Loans and advances and amounts due from banks are recognized when cash is advanced to borrowers. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.
- Financial liabilities: The Bank classifies its financial liabilities other than guarantees and loan commitments as measured at amortized cost or fair value through profit and loss.

iii) Measurement

Initial measurement of financial instruments.

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, which are recorded at fair value.

Subsequent measurement of financial instruments

Amortized cost measurement

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment

Fair value measurement

Policy applicable from 1 January 2013

'Fair value' 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 in the principal or, in its absence, the most advantageous market to which the bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Policy applicable before 1 January 2013

Subsequent measurement depends on the classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Financial instruments at fair value through profit and loss including those classified as held for trading assets and liabilities are subsequently measured at fair value in the statement of financial position. All changes in fair value are recognized in fees and commission income profit or loss.

Financial assets classified as available-for-sale are subsequently measured at fair value in the statement of financial position. Gains and losses arising from a change in the fair value are recognized in other comprehensive income and accumulated in the fair value adjustment reserve in equity.
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. Instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

All non-trading financial liabilities, loans and advances, amounts due from banks and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate (EIR) method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale.
Amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The amortization is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in 'Impairment of loans and advances'.
After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is recycled through into profit or loss.
Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

iv) De-recognition of financial instruments

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

v) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal repayments;
- The Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

i) Adverse changes in the payment status of borrowers in the group; or
ii) National or local economic conditions that correlate with defaults on the assets in the group.

Financial assets carried at amortized cost

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is recognized at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continues to be recognized through the unwinding of the discount. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Available for sale financial assets

Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognized through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognized in OCI.

The Bank writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Bank Credit determines that there is no realistic prospect of recovery.

v) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

vi) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when and only when, there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted under IFRS or from gains and losses arising from a group of similar transactions such as the Bank's trading activity.

Ugandan Financial Institutions Act 2004 requirements

In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Bank is also required by the Ugandan Financial Institutions Act 2004 to estimate losses on loans and advances as follows:

i) A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances established by the Bank of Uganda, as follows:

a) Substandard assets with arrears period between 90 days and 180 days – 20%
b) Doubtful assets with arrears period between 180 days and 360 days – 50%
c) Loss assets with arrears period over 360 days – 100%

In addition to the arrears period, the Bank must follow subjective criteria in arriving at the classification attributed to the assets.

ii) A general provision of at least 1% of total outstanding credit facilities net of specific provisions and interest in suspense.

Where provisions for impairment of loans and advances in accordance with the Ugandan Financial Institutions Act 2004 exceed amounts determined in accordance with International Financial Reporting Standards, the excess is taken to the regulatory general credit risk reserve as an appropriation of retained earnings. Otherwise no further accounting entries are made.

Requirements of the MDI Act 2003

For microfinance loans, the Bank is required 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 bank of Uganda as follows:

a) Substandard loans with arrears period between 30 to 59 days -25%
b) Doubtful loans and advances with arrears period between 60 and 89 days -50%; and
c) Loss with arrears period exceeding 90 days -100% provision.

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

Staff loans

In the normal course of business, the Bank advances loans to employees at below market rate. These loans are measured initially at fair value. The favorable loan term offered to employees are dependent on the continued employment and therefore relate to services to be rendered in future periods.

The interest benefit is forfeited if the employee leaves the bank. The benefit is a long term benefit to the employees and the discount arising from the difference between the nominal value and the market value is treated as a prepayment and expensed in profit or loss in the period in which the services are rendered.

g) Trading assets and liabilities

Trading assets and liabilities' are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.
Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss.
Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

h) Loans and advances

Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to banks are classified as loans and receivables.
Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

i) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available-for-sale.

i)Held-to-maturity

Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the bank has collected substantially all of the asset's original principal; and
- Sales or reclassifications that are attributable to non-recurring isolated events beyond the bank's control that could not have been reasonably anticipated.

ii)Fair value through profit or loss

The bank designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss.

iii)Available-for-sale

Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Other fair value changes, other than impairment losses are recognized in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

j) Intangible assets

Software

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses.

Expenditure on internally developed software is recognized as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

The capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.
Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

k) Impairment of non financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or CGU.
An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Bank's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

l) Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Bank's sources of debt funding.

Deposits and subordinated liabilities are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest rate method; any difference between proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest rate method.

Sales and repurchase agreements
Amounts paid on securities sold under sale and repurchase agreements (REPOS) are recognized in the financial statements as assets with the counterparty liability included in amounts due to banking institutions.

Securities purchased from Bank of Uganda under agreements to resell (reverse Repos), are disclosed with treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

m) Foreign currencies

Transactions in foreign currencies during the year are converted into Uganda Shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognized in profit or loss.

n) Property and equipment

i) Recognition and measurement

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Freehold land is not depreciated.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the bank. Ongoing repairs and maintenance are expensed as incurred.

iii) Depreciation

Depreciation is calculated on reducing balance at annual rates estimated to write off the carrying values of assets over their expected useful lives except for leasehold improvements where depreciation is calculated on a straight line basis

The estimated useful lives of significant items of property and equipment are as follows:

Buildings	1.4%
Furniture	12.5%
Motor vehicles	25%
Computers	33.3%
Office equipment	20%
Leasehold improvements	Over the leasehold life on a straight line basis

Leasehold improvements are amortized over the shorter of the estimated useful life of the improvements, and the remaining lease term.

Management and directors review the residual value and useful life of an asset at the year end and any change considered to be appropriate in accounting estimate is prospectively recorded through profit or loss.

iv) Impairment

The Bank assesses at each reporting 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 recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

o) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

i) Restructuring

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

p) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other facilities.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantee liabilities or loan commitments to provide a loan at below market interest rate are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee or commitment. The liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the guarantee has become probable. Financial guarantees and loan commitments are included within other liabilities.

q) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off statement of financial position transactions and disclosed as contingent liabilities. Estimates of the outcome and financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

r) Dividends

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

s) Operating leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

The prepaid operating lease rentals are recorded in the statement of financial position and amortized over the remaining lease term.

t) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

i) Current tax

Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends

ii) Deferred tax

Deferred tax is recognized 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 assets are recognized 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. 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 realized.

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.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Additional taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized. These amounts are generally recognized in profit or loss because they generally relate to income arising from transactions that were originally recognized in profit or loss.

iii) Tax exposures

In determining the amount of current and deferred tax, the bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made

u) Employee benefits

i) Retirement benefit obligations

The company contributes to the Statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees' gross salary. The company's contributions are charged to the income statement in the year to which they relate.

ii) Share based payment transactions

Certain senior management participates in a share based payment arrangement organized and managed at group level. The fair value of the amounts payable to employees in respect of share application rights which are settled in cash is recognized as an expense with the corresponding increase in liabilities over the period in which the employees become unconditionally entitled for payment. The liability is re-measured at each reporting date and at the settlement date. Any changes in fair value of the liability are recognized as personnel expenses in profit or loss.

iii) Short term benefits

Short term benefits consist of salaries, bonuses and any non monetary benefits. They exclude equity based benefits and termination benefits.
Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under a short term cash bonus only if the Bank has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and if the obligation can be measured reliably.

v) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days to maturity from the statement of financial position date and include: cash and balances with the Central Bank, treasury bills and other eligible bills, and amounts due from group and other banks. Cash and cash equivalents excludes the cash reserves requirement held with Bank of Uganda.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

w) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all any potentially dilutive ordinary shares which comprise share options granted to employees

x) Accounting for leases

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

i) With the Company as lessee

The company entered into operating lease arrangements for its premises and payments made under these arrangements are charged to the profit and loss account on a straight-line basis over the period of the lease.

The company also entered into finance lease arrangements with DFCU bank & Centenary bank and in this regard, the company recognized an asset and a liability in its statement of financial position at amounts equal to the present value of the minimum lease payments determined at the inception of the lease. The company's incremental borrowing rate was applied as the discount rate in determining the present value of the minimum lease payments.

y) Grants

Capital grants represent the cost of donated property and equipment net of accumulated depreciation. The capital grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

z) Adoption of new and revised standards

The accounting policies adopted are consistent with those used in the previous financial year except the following standards, amendments and interpretations which the Bank has adopted. The adoption of these standards, amendments and interpretations did not have significant effect on the financial performance or position of the Bank.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in SOCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The available-for-sale revaluations are recycled to profit or loss and the property and equipment revaluation reserves is not recycled. The amendment affects presentation only. The amendment became effective on 1 July 2013.See the impact on the face of Other Comprehensive income.

IAS 12 Income Taxes – Recovery of Underlying Assets

The 2010 amendment provides an exception to this measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. Under the exception, the measurement of deferred tax assets and liabilities is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. However, this has had no impact on the Bank.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. The Bank adopted this standard effective 1 January 2013. See note 3 (d) for disclosures.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Short term and long term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement. The amendment becomes effective for annual periods beginning on or after 1 January 2013. Although the Bank is not impacted by the amendments relating to defined benefit plans, the impact on the definitions of short term and long term liabilities are still being assessed.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation —Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require entities to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard became effective on 1 January 2013 and it had no impact on the financial statements.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard became effective on 1 January 2013 and it had no impact on the financial statements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard became effective on 1 January 2013 and it had no impact on the financial statements.

Standards and interpretations issued during the year but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in

IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address impairment of financial assets and hedge accounting. The completion of this project is expected over the course of the first half of 2013. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the bank's financial assets but will potentially have no impact on the classification and measurement of the financial liabilities. The Bank will quantify the effect in conjunction with other phases, when issued, to present a comprehensive picture.

The standards issued, which the Bank does not reasonably expect to be applicable at a future date are listed below:

International Financial Reporting Standards and amendments issued but not effective for 31 December 2013 year-end

Number	Title	Effective date	Executive summary
IAS 32	Offsetting Financial Assets and Financial Liabilities	1-Jan-14	The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Company no longer offsetting two of its master netting arrangements.
IFRS 10, IFRS 12 and IAS 27 amendment	Investment Entities	1-Jan-14	The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.
IFRS 9 (2009)	Financial Instruments	1-Jan-15	The standard introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.
IFRS 9 (2010)	Financial Instruments	1-Jan-15	The amendment introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.
IFRIC 20	IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1-Jan-13	The interpretation applies to waste removal (stripping) costs that are incurred in surface mining activity, during the production phase of the mine. This interpretation addresses issues of recognition of production stripping costs as an asset, initial measurement of stripping activity asset and subsequent measurement of the stripping activity asset.
IFRIC 21	Levies		IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognizes a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements.

(aa) Comparatives

Where necessary, comparative figures are adjusted to conform to changes in presentation in the current year.

Financial Risk Management

3. FINANCIAL RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Non financial risks.

This note presents information about the bank's exposure to each of the above risks, the bank's objectives, policies and processes for measuring and managing risk and the bank's management of capital.

Risk management framework

Risk management is carried out by Treasury in conjunction with the Risk department under policies approved by the Board of Directors. These identify, evaluate and hedge financial risks in close cooperation with the other operating units. The Board provides written principles for overall risk management in the ALM manual.

The Bank's risk management policies are established to identify and analyze the risks faced by the bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Board Audit Committee (BAC) is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. The BAC is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

(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, other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure such as individual obligator default risk, country and sector risk.
Credit exposures arise principally in lending and investment activities.

(i) Credit risk measurement

(a) Loans and advances

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.

In measuring credit risk of loan and advances at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Company derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Probability of default

The bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty.

Bank's internal ratings scale

Bank's rating	Description of the grade
1	Normal credit risk (pass)
2	Watch (special mention)
3	Substandard
4	Doubtful
5	Loss

- Normal credit risk (Pass) is a credit facility, which is up-to-date in payments;
- Watch (Special Mention) is a credit facility in which the principal or interest is due and unpaid for eight days or more but less than thirty days
- Substandard is a credit facility in which the principal or interest is due and remains unpaid for thirty days or more but less than sixty days.
- Doubtful is a credit facility in which the principal or interest is due and remains unpaid for sixty days or more but less than ninety days.
- Loss is a credit facility in which the principal or interest is due and remains unpaid for ninety days or more.

Exposure at default

Exposure at default is based on the amounts the bank expects to be owed at the time of default. For example, for a loan this is the face value.

Loss given default

Loss given default or loss severity represents the bank's expectation of the extent of loss on the total exposure should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

(ii) Risk limit control and mitigation policies

The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to periodic review by the Board of Directors.

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.

Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Collateral held and other credit enhancements and their financial effect

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral is usually not held against investment securities, and no such collateral was held at 31 December 2013 or 2012.

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

Type of credit exposure	Percentage of exposure that is subject to collateral requirements		Principal type of security held
	2013	2012	
Loans and advances to customer			
Commercial loans	100	100	Property, Plant and Equipment
Microfinance loans	100	100	Chattels and guarantees
Group loans	100	100	Group guarantees
Salary loans	0	0	unsecured

(iii) Impairment and provisioning policies

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the advances portfolio that is not specifically impaired.

The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the impairment provision is composed largely of the bottom two grades.

	2013		2012	
Bank's rating	**Credit exposure %**	**Impairment allowance %**	**Credit exposure %**	**Impairment allowance %**
Performing	94.9	93.5	95.2	86.7
Watch	2.4	2.8	1.7	1.5
Substandard	1.0	1.1	0.8	1.5
Doubtful	0.4	0.6	0.8	6.2
Loss	1.4	2.0	1.5	4.1
	100.0	100.0	100.0	100.0

The internal rating scale assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bank bankruptcy endings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Write off policy

The Bank writes off loan balances in accordance with the Financial Institution Regulation on Credit Classification and Provisioning, regulation 11 (5), which requires credit facilities classified "loss" to be written off within 90 days, unless approval of the Central Bank has been obtained.

(iv) Maximum exposure to credit risk before collateral held

Credit risk exposures relating to on-balance sheet assets are as follows:

	2013 Shs '000	2012 Shs '000
Deposit with Bank of Uganda	50,000	50,000
Placements with other banks	6,018,642	519,662
Bank balances- amounts due from other banks	9,116,384	8,008,757
Loans and advances to customers	60,191,453	48,202,973
Other assets	3,279,673	3,390,961
	78,656,152	**60,172,353**

The above table represents a worse case scenario of credit risk exposure to the Company at 31 December 2013 and 31 December 2012, 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 balance sheet.

As shown above, 76.5% of the total maximum exposure is derived from loans and advances to customers (Dec 2012: 80.0%), 7.7% represents placements with other banks (Dec 2012: 0.9%) and 11.6% represents amounts due from other banks (Dec 2012: 13.3%).

Loans and advances to customers are generally secured by collateral. Loans above Shs 10 million are secured by professionally valued collaterals like land and buildings and/or plant and machinery with dully registered charges over the collateral.
Included in loans and advances to customers as at 31 December 2013 are restructured/ renegotiated loans and advances amounting to Ushs Nil (2012: Ushs Nil).

The total loan impairment as a percentage of total loans was 1.43% as at 31 December 2013 (2012: 1.79%) in accordance with IFRS. While the total loan impairment ratio in accordance with the Central Bank prudential guidelines was 2.08% as at 31 December

2013 (2012: 2.97%). The bank's underwriting standards state that the NPA ratio should not exceed 3% but has not yet set a limit on the total loan impairment as a percentage of the total loans.
Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following

- The bank exercises stringent controls over the granting of new loans;
- 94.8% of the loans and advances portfolio are neither past due nor impaired; and
- 100% of the loans and advances portfolio are backed by collateral.

(v) Loans and advances

Loans and advances are summarized as follows:	2013 Shs '000	2012 Shs '000
Neither past due nor impaired	57,869,444	46,654,835
Past due but not impaired	3,012,400	2,261,034
Impaired	189,259	166,266
Gross loans	61,071,103	49,082,135
Less: allowance for impairment (Note 13)	(879,650)	(879,162)
Net	**60,191,453**	**48,202,973**

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system of the Bank adopted from the MDI Act 2003 and FIA Regulations 2004:

	2013 Shs '000	2012 Shs '000
Neither past due nor impaired	**57,869,444**	**46,654,835**

Loans and advances assessed for impairment

Of the total gross amount of impaired loans, the following amounts have been individually assessed:

	2013 Shs '000	2012 Shs '000
Individually assessed impaired loans and advances	189,259	166,266
Fair value of collateral held	**201,631**	**166,266**

Loans with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognized and the renegotiated loan recognised as a new loan at fair value.

The bank renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. Under the bank's credit policy, loan restructure is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both micro and commercial loans are subject to the forbearance policy. The Board Audit Committee regularly reviews reports on restructuring activities.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favorable for the borrower than the bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, earlier repayment or until it is written off. Irrespective of whether loans with renegotiated terms have been derecognized or not, they remain disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

Sectoral analysis of loans and advances to customers
Economic sector risk concentrations within the customer loan portfolios were as follows:

		Loans and advances
	2013	**2012**
At 31 Dec 2013	%	%
Agriculture	27.1	19
Manufacturing	0.1	2
Trade commerce	49.0	44
Transport communication	10.6	5
Building and construction	4.5	13
Personal loans, service industry and others	8.7	17
	100	**100**

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations on its financial liabilities. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The bank is exposed to daily calls on its available cash resources from demand and maturing deposits. The bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Central Bank requires that the bank maintain a cash reserve ratio. The treasury department monitors liquidity ratios on a daily basis.

Management of liquidity risk

The Bank has access to a diverse funding base. Funds are raised mainly from deposits and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall bank strategy. In addition, the Bank has an Asset and Liability committee that meet on a regular basis to monitor Liquidity risk, review and approve liquidity policies and procedures.

Exposure to Liquidity risk

A key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash in hand, balances with Bank of Uganda, placements maturing within three months and investments for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within three months. Details of the reported ratio of net liquid assets to deposits from customers at the reporting date were as follows:

	2013 Ushs'000	2012 Ushs'000
Net liquid assets	19,286,734	8,558,757
Customer deposits	45,457,509	32,096,226
% Ratio as at 31 December	**42.42%**	**26.67%**
Average for the year	33.7%	22.9%
Minimum for the year	15.0%	18.0%
Maximum for the year	63.0%	38.0%

Advance to deposit ratio:		
At 31 December	55.8%	75.8%
Limit for the period	82.5%	85.0%

The table below presents the undiscounted cash flows payable by the Company under financial liabilities by remaining contractual maturities at the balance sheet date and from financial assets by expected maturity dates. All figures are in thousands of Uganda Shillings.

At 31 Dec 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Liabilities						
Customer deposits	6,233,622	6,756,317	17,158,379	15,266,287	-	45,414,605
Loan guarantee fund	204,572	272,763	136,381	68,191	-	681,907
Bank overdraft	-	-	-	-	-	-
Finance Lease	4,510	9,372	45,736	112,928	-	172,546
Other liabilities	-	-	-	3,264,351	-	3,264,351
Borrowed funds	1,291,318	2,103,039	6,296,118	2,911,398	-	12,601,873
Employee benefits provisions	-	-	288,623	-	-	288,623
Designated funds	-	-	246,108	-	-	246,108
Capital grants	-	-	-	516,493	-	516,493
Equity	-	-	-	29,064,379	-	29,064,379
Total financial liabilities (contractual maturity dates)	**7,734,022**	**9,141,491**	**24,171,345**	**51,204,027**	**-**	**92,250,885**
Assets						
Cash and Bank Balances	13,218,092					13,218,092
Bank of Uganda balance	-	-	-	-	50,000	50,000
Placements with other banks	1,032,359	3,437,745	1,548,538	-	-	6,018,642
Loans and advances to customers-(Gross)	3,635,543	6,719,251	15,394,408	34,442,251	-	60,191,453
Other assets	-	-	-	12,772,698	-	12,772,698
Total financial assets (expected maturity dates)	**17,885,9946**	**10,156,996**	**16,942,946**	**47,214,949**	**50,000**	**92,250,885**
Net Liquidity gap	**10,151,972**	**1,015,505**	**(7,228,399)**	**(3,989,078)**	**50,000**	**-**

Financial risk management (continued)

(b) Liquidity risk (continued)

At 31 Dec 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Liabilities						
Customer deposits	3,531,946	3,905,185	3,684,226	21,330,186	-	32,451,543
Loan guarantee fund	147,044	196,060	98,030	49,015	-	490,149
Bank overdraft	3,543,964	-	-	-	-	3,543,964
Finance Lease	1,817	3,748	18,918	51,974	-	76,457
Other liabilities	819,107	1,365,179	546,072	-	-	2,730,358
Borrowed funds	307,293	1,619,788	4,684,816	7,087,630	-	13,699,527
Due to related parties	-	88,997	177,994	1,073,897	-	1,340,888
Employee benefits provisions	-	-	-	239,457	-	239457
Total financial liabilities (contractual maturity dates)	8,351,171	7,178,957	9,210,056	29,832,159	-	54,572,343
Assets						
Cash and Bank Balances	8,008,757					8,008,757
Bank of Uganda balance	-	-	-	-	50,000	50,000
Placements with other banks	-	-	519,662	-	-	519,662
Loans and advances to customers-(Gross)	5,765,531	9,903,661	21,675,357	10,858,424	-	48,202,973
Other assets	299,612	1,723,522	1,034,113	333,714	-	3,390,961
Total financial assets (expected maturity dates)	14,073,900	11,627,183	23,229,132	11,192,138	50,000	60,172,353
Net Liquidity gap	**5,722,729**	**4,448,226**	**14,019,076**	**(18,640,021)**	**50,000**	**5,600,010**

4. Financial risk management (continued)

(b) Liquidity risk (continued)

Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. Treasury caries out stress tests on deposits in regard to the risk of liquidity flight to assess the resilience of the company to withstand the extreme conditions.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

As at 31 December 2013, the results of the three day stress test on deposits assuming 25% of total customer deposits were withdrawn indicated more than sufficient liquidity to meet the above scenario and maintain a surplus of Shs 7.4billion (Dec 2012: Shs 3.21 billion).

(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 and foreign currencies, both 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 optimizing the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). Treasury is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

Currency risk

The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows, which are monitored daily and if the exposure is deemed significant, the company through its treasury function takes out hedges against such exposures.

The table below summarizes the Company's exposure to foreign currency exchange rate risk at 31 December 2013. Included in the table are the Company's financial instruments, categorised by currency (all amounts expressed in thousands of Uganda Shillings).

(4) Financial risk management (continued)

(c) Market risk (continued)

Currency risk (continued)

At 31 December 2013	USD	Shs'000	Total
Assets			
Cash and Bank Balances	38,586	13,179,506	**13,218,092**
Deposit with Bank of Uganda	-	50,000	**50,000**
Placements with other Banks	-	6,018,642	**6,018,642**
Loans and advances to customers	-	60,191,453	**60,191,453**
Other assets	-	3,311,787	**3,311,787**
Total assets	**38,586**	**82,751,388**	**82,789,974**
Liabilities			
Customer deposits	-	45,414,605	**45,414,605**
Loan guarantee fund	-	681,907	**681,907**
Bank overdraft	-	-	**-**
Other liabilities	-	3,264,351	**3,264,351**
Borrowed funds	-	12,601,873	**12,601,873**
Designated funds	-	246,108	**246,108**
Employee benefits provisions	-	288,623	**288,623**
Total liabilities	-	**62,497,467**	**62,497,467**
Net on-balance sheet position	**38,586**	**20,253,921**	**20,292,507**
At 31 December 2012			
Total assets	15,169	60,157,184	60,172,353
Total liabilities	-	55,007,931	55,007,931
Net on-balance sheet position	**15,169**	**5,149,253**	**5,164,931**

Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The table below summarizes the Company's exposure to interest rate risk. Included in the table are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. All figures are in thousands of Uganda Shillings.

(4) Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

At 31 Dec 2013	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Non-interest bearing	Total
Assets	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Cash and Bank Balances	-	-	-	-	-	13,218,092	13,218,092
Deposit with Bank of Uganda	-	-	-	-	50,000		50,000
Placements with other Banks	1,032,358	3,437,745	1,548,539	-	-		6,018,642
Loans and advances to customers	3,566,973	6,719,251	15,394,407	34,510,822	-		60,191,453
Current income tax recoverable	-	-	-	-	-	212,379	212,379
Deferred income tax asset	-	-	-	-	-	1,497,146	1,497,146
Other assets	-	-	-		-	3,311,787	3,311,787
Property and equipment	-	-	-		-	5,770,326	5,770,326
Intangible assets	-	-	-		-	1,981,060	1,981,060
Total assets	**4,599,331**	**10,156,996**	**16,942,946**	**34,510,822**	**50,000**	**25,990,790**	**92,250,885**
Customer deposits	6,233,622	6,756,317	17,158,379	15,266,287	-	-	45,414,605
Loan guarantee fund	204,572	272,763	136,381	68,191	-	-	681,907
Finance Lease	4,510	9,371	45,737	112,928	-	-	172,546
Other liabilities	-	-	-	-	-	3,264,351	3,264,351
Borrowed funds	1,211,318	2,103,039	6,296,118	2,991,398	-	-	12,601,873
Bank overdraft	-		-	-	-	-	-
Designated funds	-	-	-	-	-	246,108	246,108
Employee benefits provisions	-	-	-	-	-	288,623	288,623
Capital grants	-	-	-	-	-	516,493	516,493
Shareholder's equity	-	-	-	-	-	29,064,379	29,064,379
Total liabilities	**7,654,022**	**9,141,490**	**23,636,615**	**18,438,804**	**-**	**33,379,954**	**92,250,885**
Interest re-pricing gap	**(3,054,691)**	**1,015,506**	**(6,693,669)**	**16,072,017**	**-**		

(4) Financial risk management (continued)

Interest rate risk (continued)

At 31 December 2012	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Non-interest Bearing	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Total assets	5,765,531	9,903,661	22,195,019	10,858,424	50,000	17,255,485	66,028,120
Total liabilities	7,532,064	5,813,778	8,663,984	29,592,702	-	14,444,030	66,046,558
Interest re-pricing gap	**(1,766,533)**	**4,089,883**	**13,531,035**	**(18,734,278)**	**-**		

(3) Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company. 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 Company and its exposure to changes in interest rates and exchange rates.

(d) Non financial risk

In addition to the risks discussed above, the Bank also faces a number of other risks which it groups and manages under Non-financial risk. Non-financial risk encompasses operational risk and business risk:

Operational risk is the risk of direct or indirect impacts resulting from inadequate or failed internal processes or systems or from external events. Major sources of operational risk include: implementation of strategic change, outsourcing of operations, dependence on key suppliers, fraud, error, customer service quality, regulatory compliance, payment systems' reliability, IT security, recruitment, training and retention of staff, and social and environmental impacts. Operational risk is managed and monitored by the Risk Management Committee.

(i) Capital adequacy

The bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- To comply with the capital requirements set by the Bank of Uganda;
- To safeguard the Company'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 Bank of Uganda for supervisory purposes. The required information is filed with the Bank of Uganda on a monthly basis.

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 Bank 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% risk weighting balance because they carry some risk, while, property and equipment carries a 100% risk weighting, meaning that it must be supported by core capital equal to 8% and total capital equal to 12% of the carrying amount. Other asset categories have intermediate weightings.

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

The Bank of Uganda requires each Commercial Bank to: (a) maintain, at all times, core capital, equal to the minimum paid-up capital requirements of Uganda Shillings 25.0 billion as specified in section 26(5) of the FIA; (b) maintain, at all times, core capital of not less than 8% of the Risk Weighted Assets (RWA); (c) maintain, at all times, total capital of not less than 12% of the Risk Weighted Assets (RWA).

The bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, retained earnings plus year to date profits.
- Tier 2 capital (supplementary capital): 20% includes subordinated debt (not to exceed 50% of the core capital, subject to discount factor), other reserves and general provisions of up to 1% of loan portfolio (limited to a maximum of 1.25% of gross risk-weighted assets).

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of the asset and reflecting an estimate of the credit risk associated with each asset and counterparty. The table below summarizes the composition of regulatory capital and the ratios of the Company at end of the year:

	Carrying amount		Weights	Risk weighted amounts	
	2013	2012		2013	2012
	Shs'000	Shs'000		Shs'000	Shs'000
Balance sheet assets (net of provisions)					
Cash balances	4,101,708	3,653,219	0%	-	-
Balances with Banks in Uganda	9,116,384	4,355,539	20%	1,823,326	871,108
Deposit with Bank of Uganda	50,000	50,000	0%	-	-
Placements with other banks	6,018,642	519,662	20%	1,203,728	103,932
Loans and advances to customers	60,191,453	48,202,973	100%	60,191,453	48,202,973
Other assets	3,311,787	3,390,961	100%	3,311,787	3,390,961
Current income tax recoverable	212,379	212,379	100%	212,379	212,379
Deferred income tax asset	1,497,146	297,828	0%	-	-
Property and equipment	5,770,326	5,349,661	100%	5,770,326	5,349,661
	90,269,825	**66,032,222**		**72,512,999**	**58,131,014**

a) Tier 1 Capital

	2013	2012
	Ushs '000	Ushs '000
Paid-up share capital	26,085,402	8,585,402
Share premium	-	-
Retained earnings	2,581,111	1,414,646
Intangible assets	(1,981,060)	(505,091)
Deferred income tax asset	(1,497,146)	(297,828)
Unrealized exchange gains	(4,422)	-
	25,183,885	**9,197,129**

b) Tier 2 Capital

	2013	2012
	Ushs '000	Ushs '000
General provisions	581,845	460,835
Subordinated debt	2,000,000	3,005,570
	2,581,845	**3,466,405**
Total Capital (Tier 1 + Tier 2 Capital)	**27,765,730**	**12,663,534**

FIA Capital Ratios	FIA Minimum Capital Requirements		Capital Adequacy as at 31 December	
	2013	2012	2013	2012
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Tier 1 capital	8%	8%	34.73%	15.82%
Tier 1 + Tier 2 capital	12%	12%	38.29%	21.78%

(d) Fair Value Measurement

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable on unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company 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 or counterparty credit risk are Bloomberg and Reuters.

- 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 Company considers relevant and observable market prices in its valuations where possible.

At 31 December 2013 and 31 December 2012 the Company did not have financial assets and liabilities measured at fair value.

Financial instruments by category

At 31 December 2013	Loans and receivables Shs'000	Held to maturity Shs'000	Total Shs'000
Assets as per balance sheet			
Cash and balances with bank	13,218,092	-	13,218,092
Deposit with Bank of Uganda	50,000	-	50,000
Placements with other banks	-	6,018,642	6,018,642
Loans and advances to customers	60,191,453	-	60,191,453
Total	**73,459,545**	**6,018,642**	**79,478,187**

At 31 Dec 2013	Loans and payables Shs '000	Other financial liabilities at amortised cost Shs '000	Total Shs '000
Liabilities as per balance sheet			
Customer deposits	-	45,414,605	45,414,605
Loan guarantee fund	-	681,907	681,907
Bank overdrafts	-	-	-
Due to related parties	-	-	-
Borrowed funds	12,601,873	-	12,601,873
Gratuity	288,623	-	288,623
Total	**12,890,496**	**46,096,512**	**58,987,008**

At 31 December 2012			
Assets as per balance sheet			
Cash and balances with bank	8,008,757	-	8,008,757
Deposit with Bank of Uganda	50,000	-	50,000
Placements with other banks	-	519,662	519,662
Loans and advances to customers	48,202,973	-	48,202,973
Total	**56,261,730**	**519,662**	**56,781,392**

At 31 December 2012			
Liabilities as per balance sheet			
Customer deposits	-	32,451,543	32,451,543
Loan guarantee fund	-	490,149	490,149
Bank overdrafts	3,543,964	-	3,543,964
Due to related parties	1,340,888	-	1,340,888
Borrowed funds	13,699,527	-	13,699,527
Gratuity	239,457	-	239,457
Total	**18,823,836**	**32,941,692**	**51,765,528**

4. Interest income

	2013 Shs '000	2012 Shs '000
Loans and advances	19,148,516	16,695,381
Treasury bills	36,608	-
Fixed Deposits	535,993	98,717
	19,721,117	**16,794,098**

5. Interest expense

	2013 Shs '000	2012 Shs '000
Customer deposits	1,652,096	1,119,194
Term loans	2,695,479	3,200,428
	4,347,575	**4,319,622**

6. Fees and Commission Income

	2013 Shs '000	2012 Shs '000
Savings Income	1,920,938	1,646,601
Loans Income	6,523,383	5,624,344
Other Commissions Income	462,218	776,187
	8,906,539	**8,047,132**

	2013 Shs '000	2012 Shs '000
7. Other Income		
Rental income	18,939	32,474
Payment in lieu of notice	-	662
Exchange gain	4,603	17,559
Recovery of written off loans	164,069	68,123
Gain on sale of property and equipment	2,215	6,548
Write back of Leave Provisions	72,888	494,584
Others	244,315	711,275
	507,029	**1,331,225**

	2013 Shs '000	2012 Shs '000
8a. Staff costs & other benefits		
Basic pay	8,869,280	7,201,100
Bonus and incentives	923,598	663,211
Fuel allowance	241,297	223,229
Acting allowance	99,922	63,823
Leave allowance	72,192	81,557
Pension and gratuity	261,921	539,808
Housing & security allowances	91,559	61,580
Payment in lieu of notice	7,690	8,750
NSSF employer's contribution	1,259,987	850,588
Funeral expenses	7,140	9,347
Staff welfare, teas and lunches	171,390	156,200
Staff settlement expenses	103,083	86,013
Staff uniforms	35,096	2,058
Casual labourers	14,038	12,952
Recruitment expenses	18,423	24,609
Medical expenses	435,918	236,438
Airtime expenses	134,320	120,138
Entertainment general	5,681	978
Cashier's allowance	32,781	22,002
	12,785,316	**10,364,381**

	2013 Shs '000	2012 Shs '000
8b. Operating expenses		
The following items are included within operating expenses:		
Computer software expenditure	546,884	466,999
Auditors' remuneration	89,861	88,671
Other professional costs	13,389	92,615
Bad debts written off others	-	-
Legal fees	145,051	57,427
Direct loan costs	242,492	179,142
Non trading foreign exchange loss	2,535	8,987
Marketing and publicity expenses	524,850	582,802
Board expenses	375,406	330,276
Staff training	257,352	376,504
Other operating expenses (Note 8c)	7,235,319	6,486,191
	9,433,139	**8,669,614**

	2013 Shs '000	2012 Shs '000
8c. Other operating expenses		
Transport and travel	421,404	318,786
Motor vehicle expenses	390,182	286,493
Printing and stationery	507,097	419,299
Data rental services	478,877	412,394
Rent expenses	1,724,204	1,503,148
Utilities	667,626	619,109
Insurance expenses	351,508	246,296
Security expenses	1,186,304	1,030,664
Administrative expenses	1,380,552	1,160,395
Write off of other debtors	127,565	489,607
	7,235,319	**6,486,191**

	2013 Shs '000	2012 Shs '000
9. Income tax expense		
Current income tax	-	-
Deferred income tax	(1,199,318)	(361,073)
	(1,199,318)	**(361,073)**

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2013 Shs '000	2012 Shs '000
Profit before income tax	543,117	1,169,211
Tax calculated at the statutory income tax rate of 30% (2012: 30%)	**162,935**	**350,764**
Tax effect of:		
Income not subject to tax	(1,418,804)	(771,647)
Expenses not deductable for tax	56,551	59,810
Income tax (charge)/Credit	**(1,199,318)**	**(361,073)**

	2013 Shs '000	2012 Shs '000
10. Cash and bank balances		
a)		
Cash in hand	4,101,708	3,653,219
Bank balances	9,116,384	4,355,538
	13,218,092	**8,008,757**
b)		
Deposit with Bank of Uganda	**50,000**	**50,000**

Included in the balances with Bank of Uganda is a minimum cash reserve requirement maintained in accordance with the provisions of the Financial Institutions Act 2004. The reserve requirement is based on the value of customer deposits as adjusted by the Bank of Uganda and is monitored on a rolling fortnightly basis. These funds are available for the day to day operations of the bank. However, sanctions apply should the minimum requirement be breached.

	2013 Shs '000	2012 Shs '000
11. Placements with other banks		
Maturing within 91 days	1,861,510	519,662
Maturing after 91 days	4,157,132	-
	6,018,642	**519,662**

The weighted average effective interest rate on placement with other banks was 12.8% (2012: 17.7%)

	2013 Shs '000	2012 Shs '000
12. Loans and advances to customers		
Agriculture	16,571,493	9,388,528
Manufacturing	56,132	944,490
Trade and commerce	29,941,887	21,637,106
Transport and Communication	6,484,604	2,600,491
Building and Construction	2,738,814	6,383,642
Personal loans, service industry and others	5,278,173	8,127,878
Gross loans and advances	61,071,103	49,082,135
Less: Provision for impairment of loans and advances		
- Individually assessed	(126,277)	(107,422)
- Collectively assessed	(753,373)	(771,740)
	60,191,453	**48,202,973**

Movements in provisions for impairment of loans and advances and the reconciliation for the charge in the profit and loss account were as follows:

Year ended 31 December 2012	**Shs '000**	**Shs '000**	**Shs '000**
At 1 January	48,785	549,618	598,403
Charge for the year	84,804	884,267	969,071
Write offs against provisions	(26,167)	(662,145)	(688,312)
At 31 December	**107,422**	**771,740**	**879,162**
Year ended 31 December 2013			
At 1 January	107,422	771,740	879,162
Charge for the year	18,855	1,030,316	1,049,171
Write offs against provisions	-	(1,048,683)	(1,048,683)
At 31 December	**126,277**	**753,373**	**879,650**

	2013 Shs '000	2012 Shs '000
13. Other assets		
Prepayments	1,997,848	2,125,254
Staff debtors	132,232	240,025
Sundry receivables	796,118	903,592
Fees receivable	150,592	36
Inventory	202,882	122,054
	3,279,672	**3,390,961**

14 . Property and equipment

	Buildings Shs '000	Furniture and fittings Shs '000	Motor vehicles & motorcycles Shs '000	Computers Shs '000	Office equipment Shs '000	Leasehold improvements Shs '000	Total Shs '000
Year ended 31 December 2012							
COST							
At 1 January 2012	115,841	1,573,906	671,724	1,945,801	2,971,381	1,858,025	9,136,678
Re-Classifications	4,740	-	-	-	-	(4,740)	-
Additions	67,659	67,441	218,757	357,396	282,771	249,109	1,243,132
Disposals	-	(2,866)	(97,676)	(27,147)	(78,377)	-	(206,065)
At 31 December 2012	**188,240**	**1,638,481**	**792,805**	**2,276,050**	**3,175,775**	**2,102,395**	**10,173,745**
Accumulated Depreciation							
At 1 January 2012	21,829	808,272	404,006	1,215,880	1,544,207	480,133	4,474,327
Reclassification	605	-	-	-	-	(605)	-
Disposals	-	(1,906)	(69,879)	(25,603)	(48,560)	-	(145,948)
Charge for the year	2,263	100,941	91,165	318,378	307,042	181,007	1,000,796
At 31 December 2012	**24,697**	**907,307**	**425,292**	**1,508,655**	**1,802,689**	**660,535**	**5,329,175**
Year ended 31 December 2013							
COST							
At 1 January 2013	**188,240**	**1,638,481**	**792,805**	**2,276,050**	**3,175,775**	**2,102,395**	**10,173,745**
Additions	-	72,143	396,362	357,064	749,997	501,562	2,077,128
Disposals	-	(1,020)	(67,554)	(31,987)	(300)	-	(100,860)
At 31 December 2013	**188,240**	**1,709,604**	**1,121,613**	**2,601,127**	**3,925,472**	**2,603,957**	**12,150,013**
Accumulated Depreciation							
At 1 January 2012	**24,697**	**907,307**	**425,292**	**1,508,655**	**1,802,689**	**660,535**	**5,329,175**
Disposals	-	(747)	(53,149)	(30,896)	(204)	-	(84,996)
Charge for the year	2,630	94,778	140,415	330,999	335,232	231,454	1,135,508
At 31 December 2013	**27,327**	**1,001,338**	**512,558**	**1,808,758**	**2,137,717**	**891,989**	**6,379,687**
NET BOOK VALUE							
At 31 December 2013	**160,913**	**708,266**	**609,055**	**792,369**	**1,787,755**	**1,711,968**	**5,770,326**
At 31 December 2012	163,543	731,174	367,513	767,395	1,373,086	1,441,860	4,844,570

	2013 Shs '000	2012 Shs '000
15. Intangible assets (computer software)		
COST		
At 1 January	1,946,354	1,698,822
Additions	2,021,122	247,532
At 31 December	**3,967,476**	**1,946,354**
Accumulated Depreciation		
At 1 January	1,441,263	1,212,416
Charge for the year	545,153	228,847
At 31 December	**1,986,416**	**1,441,263**
At 31 December	**1,981,060**	**505,091**

16. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2012: 30%). The movement on the deferred income tax account is as follows:

	2013 Shs '000	2012 Shs '000
At 1 January	(297,828)	63,246
Income statement charge/credit	(1,199,318)	(361,074)
At 31 December	**(1,497,146)**	**(297,828)**

The deferred income tax movement is attributable to the following items:

At 31 December 2013	At 1 January Shs '000	Prior year adjustment Shs '000	Credited/ (charged) to profit and loss account Shs '000	At 31 December Shs '000
Deferred income tax liabilities				
Property and equipment	**1,000,839**	**(105,266)**	**422,764**	**1,318,337**
Deferred income tax assets				
Provisions for impairment	(231,522)	-	5,510	(226,012)
Provision for gratuity	(47,370)	-	(19,390)	(66,760)
Capital grants	(114,501)	-	(40,447)	(154,948)
Leave provision	(24,467)	-	4,640	(19,827)
Provision for legal costs	(7,800)	-	(25,276)	(33,076)
Accumulated tax losses carried forward	(873,007)	(2,216)	(1,439,637)	(2,314,860)
	(1,298,667)	**(2,216)**	**(1,514,600)**	**(2,815,483)**
Net deferred income tax asset	**(297,828)**	**(107,482)**	**(1,091,836)**	**(1,497,146)**

17. Deferred income tax (continued)

	At 1 January Shs '000	Charged/ (credited) to P/L Shs '000	At 31 December Shs '000
At 31 December 2012			
Deferred income tax liabilities			
Property and equipment	**913,375**	**87,464**	**1,000,839**
Deferred income tax assets			
Provisions for impairment	(164,886)	(66,636)	(231,522)
Provision for gratuity	(392,066)	344,696	(47,370)
Capital grants	(118,772)	4,271	(114,501)
Leave provision	(166,605)	142,138	(24,467)
Provision for legal costs	(7,800)	-	(7,800)
Accumulated tax Losses carried forward	-	(873,007)	(873,007)
	(850,129)	**(448,538)**	**(1,298,667)**
Net deferred income tax (asset)/liability	**63,246**	**(361,074)**	**(297,828)**

18(a). Customer deposits

	2013 Shs '000	2012 Shs '000
Demand deposits	34,328	-
Savings accounts	28,393,992	23,734,291
Fixed deposit accounts	16,986,285	8,717,252
	45,414,605	**32,451,543**

18(b). Loan guarantee fund

	2013 Shs '000	2012 Shs '000
Individuals	81,811	382,828
Groups	600,096	107,321
	681,907	**490,149**

This represents savings set aside as security and cannot be accessed by the customer before repayment of the loan granted. It is equivalent to 10% (2012: 10%) of the principal amount for the loans disbursed. The loan guarantee fund for loans above Shs 1 million is optionally held as a fixed deposit for the period equivalent to the loan period.

19. Bank overdraft

	2013 Shs '000	2012 Shs '000
Citibank Uganda Limited	-	3,052,122
Bank of Africa	-	491,842
Centenary Bank	-	-
	-	**3,543,964**

The company runs an overdraft facility of shs 1.0bn with Centenary bank that was secured on 29th August 2013 for a period of 12 months. It is secured by a floating charge on up to 120% of the loan portfolio and it ranks pari pasu with other lenders. It is charged interest at the bank's prime lending rate minus 1%.

The bank paid off all the amounts which had been utilized and as such there was no balance outstanding as at 31 December 2013.

20. Other liabilities

	2013 Shs '000	2012 Shs '000
Un-cleared cheques	109,077	75,217
Sundry creditors	850,320	859,461
Insurance payable	67,557	50,294
NSSF contributions payable	134,615	110,857
PAYE payable	226,779	216,609
Withholding tax payable	107,692	28,845
Stamp duty	4,264	5,848
Other tax payables	-	85
Deferred loan arrangement fees	1,764,047	1,383,141
	3,264,351	**2,730,358**

21. Borrowed funds

	2013 Shs '000	Rate (%)	2012 Shs '000	Rate (%)
Triodos International Fund Management	-	-	2,000,000	16.02
Triodos International Fund Management	2,000,000	18.8	2,000,000	19.02
DFCU Bank Limited	-	-	-	-
Stromme	750,000	15.5	1,584,226	15.5
Stromme	3,000,000	14.0	1,000,000	18.0
ResponsAbility	3,915,143	16.0	-	-
Bank of Africa	-	-	405,728	22.0
Blue Orchard	-	-	923,813	13.9
NMI Frontier Funds KS	-	-	594,140	13.0
Agribusiness Initiative	1,454,545	15.0	2,000,000	15.0
Micro Finance Support Center	1,482,185	13.0	2,000,000	13.0
Centenary Bank	-		1,191,620	12.9
	12,601,873		**13,699,527**	

The table below shows the movements of borrowed funds:

	2013 Shs '000	2012 Shs '000
At 1 January	13,699,527	11,804,178
Add: Receipts	6,903,000	7,500,000
Less: Payments made	(8,000,654)	(5,604,651)
At 31 December	**12,601,873**	**13,699,527**

(i) The Company holds an unsecured subordinated debt of shs 2.0bn from Triodos International Fund Management. It attracts interest at the higher of 16% and the rate on 91 day treasury bill plus 9 percent per annum plus a premium determined on a scale depending on the Company's return on average equity. Its term will expire in October 2019.

(ii) The micro finance support center loan of shs 2.0bn was acquired on 30th August 2012 for a period of 3 years. It is charged interest at a fixed rate of 13% and paid on a monthly basis after a grace period of 6 months. It is secured with a floating registered debenture of up to Shs 2 billion.

(iii) The Agribusiness Initiative loan of shs 2.0bn was acquired on 22nd November 2012 for a period of 3 years. It is charged interest at the 182 days T-Bill rate plus 4% and capped at 13% and paid on a monthly basis after a grace period of 6 months. It is secured by a lien on the company's performing portfolio equal to the coverage ratio of 150% amounting to Ushs. 3.0bn and a deed of assignment.

(iv) The company holds two facilities from Stromme Microfinance East Africa, ie, a loan facility of 3.0bn and another of 2.0bn.

The facility of Ushs 3.0bn was acquired on 12th June 2013 for a period of 3 years and it is payable in quarterly installments after a grace period of 6 months. It is secured by a floating charge on 150% of the company's Grade A loan portfolio and it is charged interest at 14%.

The facility of Ushs. 1.5bn was acquired on 11th October 2012 for a period of 2 years. It is charged interest at the 91 day T-bill rate but not lower than 15.5%. It is payable on a quarterly basis and is secured by 150% of the company's performing portfolio

(v) The company obtained a facility of Shs 3.9bn from ResponsAbility on 21st June 2013 for a period of 1 year. It is secured by a charge on the company's performing portfolio and it pays interest at a rate of 16%.

All the above loans are accounted for at amortized cost.

22. Designated funds

	ABI Shs'000	UNCDF Shs'000	2013 Total Shs'000	2012 Total Shs'000
At 1 January	42,475	469,570	512,045	306,976
Receipts	329,900	243,281	573,181	739,919
Utilized	(73,229)	(504,650)	(577,879)	(429,365)
Transfer to capital grants	(210,158)	(51,080)	(261,238)	(105,485)
At 31 December	**88,987**	**157,121**	**246,108**	**512,045**

Designated funds represent funds to be utilized by the company as stipulated in the various agreements with the funders. During the year, the company received Shs 243,281,000 from United Nations Capital Development Fund (UNCDF) under the Youth Start Program and shs 329,900,000 from Agricultural Business Initiative Trust (ABI Trust) to facilitate scaling up of Agricultural products uptake.

23. Related party transactions

	2013 Shs '000	2012 Shs '000
Amounts due from related parties		
Payment for IT systems audit (I&P)	32,115	-
Amount receivable from directors	-	14,337
	32,115	**14,337**

	2013 Shs '000	2012 Shs '000
Amounts payable to related parties:		
UWT subordinated loan	-	671,264
UWT perpetual loan	-	334,306
Oikocredit	-	335,319
	-	**1,340,888**
Interest expense incurred on the above	**75,154**	**194,834**

All related party loans were paid off during the year and there was no balance outstanding as at 31 December 2013.

	2013 Shs '000	2012 Shs '000
Fees for services as director	**270,133**	**218,066**

24. Employee benefits provision

	Gratuity Shs '000	Leave Shs '000	Total Shs '000
At 31 December 2012			
At 1 January 2012	**1,306,886**	**555,351**	**1,862,237**
Charge for the year	539,808	81,557	621,365
Provisions released	-	(494,583)	(494,583)
Reduction due to payments/utilization	(1,688,795)	(60,767)	(1,749,562)
At 31 December 2012	**157,899**	**81,558**	**239,457**

	Gratuity Shs '000	Leave Shs '000	Total Shs '000
At 31 December 2013			
At 1 January 2013	**157,899**	**81,558**	**239,457**
Charge for the year	261,921	66,089	328,010
Provision released due to utilization	-	(72,888)	(72,888)
Reduction due to payments	(197,287)	(8,669)	(205,956)
At 31 December 2013	**222,533**	**66,090**	**288,623**

25. Capital grants

	MOP Shs '000	BOU Shs '000	PSFU Shs '000	Population council Shs'000	GTZ/ SIDA Shs '000	USAID Shs '000	UNCDF Shs'000	ABI Shs '000	Total Shs '000
Year ended 31 December 2013									
At 1 January	214,775	13,601	20,056	24,427	9,419	10,715	88,677	-	381,670
From designated funds	-	-	-	-	-	-	51,080	210,158	261,238
Profit and loss credit	(70,291)	(4,533)	(6,677)	(4,775)	(1,884)	(696)	(26,932)	(10,627)	(126,415)
At 31 December	144,484	9,068	13,379	19,652	7,535	10,019	112,825	199,531	516,493
Year ended 31 December 2012									
At 1 January	291,589	20,401	30,066	30,617	11,774	11,459		-	395,906
From designated funds	-	-	-	-	-	-	105,485	-	105,485
Profit and loss credit	(76,814)	(6,800)	(10,010)	(6,190)	(2,355)	(745)	(16,808)	-	(119,722)
At 31 December	214,775	13,601	20,056	24,427	9,419	10,715	88,677	-	381,670

Capital grants represent the cost of donated property and equipment, net of the Company's contribution, and are released to the profit and loss account over the useful economic life of the assets acquired.

The company was awarded the following grants;

- The Microfinance Outreach Plan (MOP) which was not exceeding USD 670,000 was awarded for assistance during the transformation process for the period 1 February 2005 to 30 June 2006
- The Bank of Uganda (BOU) KFW fund was awarded for assistance in joining the Credit Reference Bureau.
- The Private Sector Foundation Uganda (PSFU) grant worth USD 47,000 was awarded for assistance in joining the Credit Reference Bureau.
- The GTZ/SIDA grant worth Euros 32,038 was awarded for the acquisition of capital assets to assist the company achieve the post licensing MDIA 2003 compliance
- The USAID Rural speed grant represents assets purchased to assist the company in its rural deposit mobilization efforts.
- The UNCDF grant worth Usd 750,000 was awarded to facilitate youth start programs and is to be disbursed in eight batches.
- The ABI grant worth shs 407,400,000 was awarded to facilitate scaling up of the Agricultural products uptake.

26. Share capital

	2013 Shs '000	2012 Shs '000
Authorized Share capital		
30,000 million ordinary shares (2012: 30,000 million) of Shs 1,000 each	**30,000,000**	**30,000,000**
Issued and fully paid		
At 1 January 2013 and 1 January 2012 respectively	**8,585,402**	**5,868,500**
Ordinary share issued	**9,328,358**	-
Bonus shares issued during the year from share premium	**8,171,642**	2,716,902
At 31 December 2013	**26,085,402**	**8,585,402**

The company's authorized share capital as at end of period was Shs 30 billion while the issued and fully paid-up share capital was shs 26.08bn. During the year 2013, the company allotted 10,394,456 ordinary shares at a premium of Shs 1,876 per share to new and existing shareholders and also effected a bonus issue from share premium so as to comply with Bank of Uganda's minimum capital requirement for Commercial Banks of Ushs 25 billion.

Of the 10,394,456 shares issued during the year, 9,328,358 shares were fully paid up while 1,066,098 shares were issued but not paid up as at 31 December 2013.

Ushs 8,171,641,608 was capitalized from the company's share premium account and used to pay in full at par a total of 8,171,641 ordinary shares. The shares were distributed as fully paid bonus shares to existing members of the company.

27. Regulatory credit risk reserve

	2013 Shs '000	2012 Shs '000
At 1 January	580,452	464,814
Transfer to/from retained earnings	(182,586)	115,638
At 31 December	**397,866**	**580,452**

The regulatory credit risk reserve represents an appropriation from retained earnings to comply with the Bank of Uganda's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Bank of Uganda prudential regulations over the impairment provisions recognized in accordance with the Company's accounting policy and International Financial Reporting Standards. The reserve is not distributable.

28. Proposed dividend

No interim dividend was paid during the year 2013 and the directors do not recommend a dividend in respect of the year ended 31 December 2013 (2012: nil).

Payment of dividends is subject to withholding tax at rates depending on the tax residence status of the recipient.

29. Analysis of cash and cash equivalents as shown in the cash flow statement

	2013 Shs '000	2012 Shs '000
Cash and Bank Balances (Note 11)	13,218,092	8,008,757
Placements with other banks (Note 12)	6,081,642	519,662
Bank overdraft	-	(3,543,964)
	19,299,734	**4,984,456**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with banks, placements due from other banks, bank overdrafts and excludes the cash deposit held with the Bank of Uganda as this is not available for use in the Company's day to day activities.

30. Contingent liabilities

Litigation is a common occurrence in the banking industry due to the nature of the business. The company has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the company makes adjustments to account for any significant adverse effects which the claims may have on its financial standing.

31. Lease arrangements

Operating lease commitments

The Company has entered into various operating leases for the premises in which it carries out its operations. The total of future minimum lease payments under non-cancellable operating leases are as follows:

	2013 Shs '000	2012 Shs '000
Not later than 1 year	1,752,031	1,280,967
Later than 1 year but less than 5 years	6,523,453	4,101,659
Later than five years	3,212,123	2,856,041
	11,487,607	**8,238,667**

Finance Lease

The company entered into finance leasing arrangements with DFCU & Centenary banks with leased assets being two Motor Vehicles. The lease term is 3 years for each one of the contracts and the total of future minimum lease payments under the non-cancellable finance leases are as follows:

	2013 Shs '000	2012 Shs '000
Not later than 1 year	93,055	40,473
Later than 1 year but less than 5 years	158,665	80,946
Later than five years	-	-
	251,720	**121,419**
Present value of future minimum lease payments	**172,546**	**76,457**

32. Country of Incorporation and Registered office

The Bank is incorporated in the Republic of Uganda under the Companies Act and is domiciled in Uganda. It is licensed under the Financial Institutions Act 2004 to conduct banking business. The address of its registered office is:

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

33. Currency

These financial statements are presented in thousands of Uganda Shillings.

Youth Progress Account

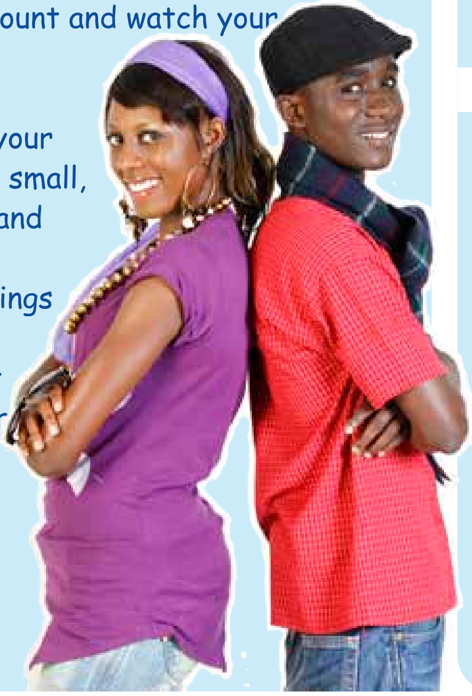
FINANCE trust BANK

Putting Women First

Turn a little money into a lot of money

Instead of spending all your money, or saving it under a mattress where it earns no interest, you can open a Youth Progressive Account and watch your savings grow.

Little by little, your savings however small, will accumulate and enable you to purchase the things you have always desired and felt were out of your reach, pay your school fees or even start a business.



Benefits

- Safe and secure way to save for both short term and long term achievements
- Easy access to the account
- Fast service eith youth-friendly staff
- Financial education
- Ability to accumulate lumpsums
- Fun activities

Advantages

- No bank charges
- Free and unlimited withdrawals
- You can deposit and save any extra cash - as little as UShs 1,000
- Earn interest and grow your savings

Requirements

- 2 passport photos to be taken by Finance Trust
- Identification (IDs), School or LC
- A form (with passport photo) signed by school or LC
- Initial deposit of UShs 6,000

Start saving for your goals today. Open a Youth Progress Savings Account at any of the Finance Trust Bank branches. This account is for youths between 18 and 24 years of age.

Seven Tips for Saving

1. Choose a savings goal
2. Make a savings plan
3. Control spending
4. Think about the future
5. Save regularly
6. Differentiate between needs and wants
7. Save in a safe place like Finance Trust

To take advantage of this account, simply visit any Finance Trust branch nearest to you today.
For more details, please call customer care on **0791 333023** or email **customercare@financetrust.co.ug**

Our branches countrywide;

Central Branch, Sure House	Kalerwe	Lugazi	Mbale	Pallisa	Kabarole	Tororo	Arua
Kampala Road	Owino	Kayunga	Masaka	Kumi	Bugiri	Kamwenge	Nateete
Katwe	Kitintale	Jinja	Mbarara	Soroti	Kamuli	Ishaka	Kapchorwa
Nakivubo	Entebbe	Mukono	Iganga	Busia	Ntungamo	Kalangala	

Notes

Finance Trust Bank branches countrywide

Kampala Branches

- Central
- Katwe
- Kampala Rd
- Nakivubo
- Nansana
- Kalerwe
- Kitintale
- Owino
- Nateete
- Kikuubo

Key

Finance Trust Bank Branches

Visit any of our 33 branches countrywide

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

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Tel: 0414 341275/255146
Website: www.financetrust.co.ug