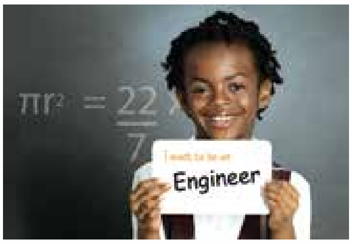

ANNUAL REPORT
AND ACCOUNTS 2014

FINANCE trust BANK

Putting Women First


BANK
Putting Women First

Finance Trust Bank Limited Annual Report and Financial Statements for the year ended December 31 2014

Finance Trust Bank Ltd. is regulated by Bank of Uganda under license no. A1.028

OIKO CREDIT AWARD
Finance Trust Bank values relationships.

Awarded to Finance Trust Bank for the longest business relationship.

NSSF APPRECIATION AWARD

Awarded to Finance Trust Bank for being up-to-date on staff contributions to NSSF.

Keep your business on the move with the

Trust Current Account

The Trust current account is for individuals, companies and organisations that want to transact by cheque. Funds can then be drawn on demand as long as the account balance is sufficient. This account is operated in Ugandan Shillings.

Benefits

- 5 free ATM transactions per month
- One free monthly statement
- Cheque book
- Counter cheque leaves available
- 10 free cheque withdraws for Business accounts, and institution accounts
- Customers get SMS notifications on every transaction
- Companies and institutions can appoint agents to transact on their behalf

Head Office

Block6, Plot 121& 115 Katwe. P.O. Box 6972, Kampala
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FINANCE trust BANK

Putting Women First

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About Us

Institutional Profile, Governance Structure and Strategic Focus 2014 - 2016

Background

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

The bank offers a broad range of financial products and services, including lending operations, deposit 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 management and treasury services. With its headquarters in Katwe, Finance Trust Bank operates a network of 36 branches, including one at Kalangala Islands. 70% of the bank's branches are located 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.

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 financial 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

Trust Fixed Deposit Account

Girl's Choice Savings Account

Trust Current Account

Trust Junior Savings Account

No Fee Deposit Account

Trust Savers Account

Teen Classic Savings Account

Youth Progress Savings Account

Mama's Safe Saving Account

Trust Agro Savings Account

Loan Products

Trust Business Loan

Trust School Fees Loan

Trust Agro Production Loan

Trust Personal Development Loan

Trust Salary Loan

Trust Agro Investment Loan

Trust Agro Processing Loan

Mama's Loan

Easy Advance Loan

Trust Asset Financing Loan

Trust Agro Marketing Loan

Trust Youth Solidarity Loan

Trust Bank Overdraft

Trust Bank Guarantee

Trust Youth Special Loan

Trust Group Business Loan

Insurance Premium Financing

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

Other Services

We provide our customers with RTGS and EFT, plus many more value added services including:

Corporate Governance

Ownership and Capital Structure

Finance Trust Bank 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:

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

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 Board Assets and Liabilities Committee (BALCO)

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 depositor's 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.

The Board Risk Committee (BRC)

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

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

This is composed of a Chairperson (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 Board Compensation Committee (BCOMC)

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 Bank 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.

Board of Directors

Hon. Eng. Irene Muloni - CHAIRPERSON OF THE BOARD

Hon. Eng. Irene Muloni is the current Minister for Energy and Mineral Development in the Government of Uganda. Prior to this, she served as the Managing Director of Uganda Electricity Distribution Company Ltd (UEDCL) since April 2002. She graduated with an Honors degree in Electrical Engineering from Makerere University, Kampala, in 1986 and holds an MBA degree from Capella University, Minneapolis, Minnesota, USA (2004). She is a Certified Public-Private-Partnership Specialist, a Professional Balanced Scorecard Practitioner; and a Corporate Member of the Uganda Institution of Professional Engineers.

She also serves on voluntary basis in both Governmental and Non-Governmental Organizations; as a member to the 1st Science & Technology Advisory Group to the United Nations Economic Commission for Africa (UNECA); and a member to the Technical Committee of the Uganda Millennium Science Initiative (MSI) a World Bank Project, managed by the Uganda National Council for promoting Science & Technology (UNCST).

Irene was recently appointed to serve on the Board of Uganda Industrial Research Institute (UIRI) and the Board of Makerere University Private Sector Forum (MUPSF). She is also the Chairperson of the Board of Governors of a rural girls' school; Tunyi Girls' Secondary School. Previously, she served as Board Member for the Civil Aviation Authority of Uganda, Kilembe Mines Limited; and Uganda Polytechnic Kyambogo, now Kyambogo University. On a regional basis, she served as Vice- Chairperson for the East African Sub-Region of the African Women's Development and Communication Network (FEMNET), and Senior Fellow for the Africa Region of the Gender Advisory Board (GAB) to the UNCSTD. Irene was the Winner of the "Sarah Ntiiro Award" 2003; a recognition as a "Model of excellence" by the Forum for Africa Women Educationists (FAWE).

She is an advocate for gender equality, women's empowerment and utilization of science and technology for sustainable development.

Annet Nakawunde Mulindwa - MANAGING DIRECTOR

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

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

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

Grace Aliakai - DIRECTOR

Grace Aliakai received a Masters degree in Electronics & Electrical Engineering from Loughborough University in 1998. Mrs. Aliakai worked for a few months at Computer Point and then moved on to MTN Uganda in 1999 where she worked for nearly 8 years. At MTN she served in a number of positions including Principal Planning Engineer - Strategic Technologies, where she was in charge of the strategic planning, setup and maintenance of international roaming and interconnection of local and international networks. Mrs. Aliakai joined Warid Telecom in 2007 where she served as Manager Core Network Strategic Planning before becoming the Head of Carrier Business which position she held to 2010. Mrs. Aliakai is currently working at ATX Technology, an entrepreneurial business with the main focus on Finance.

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

Lydia Koros - DIRECTOR

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

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

Lydia obtained her Bachelor of Commerce degree and an MBA degree in Strategic Management both from the University of Nairobi. She is an alumnus of both the Strathmore and the IESE Business schools.

Rtd. Justice Mary Maitum - DIRECTOR

Rtd. Justice Maitum is a qualified Barrister at Law. She was admitted as an Advocate at the High Court of Uganda. She served in various professional capacities as State Attorney, Corporation Secretary, Law Lecturer, Judge of the High Court of Uganda before she retired.

She acquired vast experience in corporate and institutional governance by virtue of having been a member of several governing boards including; Makerere University Council, Federation of Uganda Women Lawyers (FIDA), Statutory Commissions, Uganda Judges and Magistrates Association, National Association of Women Judges, Common Wealth Magistrates & Judges Association.

Loïc de Cannière - DIRECTOR

Loïc De Cannière joined Incofin Investment Management as CEO in 2001.

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

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

He actively promotes the inclusion of social performance parameters into microfinance and impact investments, by participating in the PIIF Steering Committee and by adhering to other initiatives, such as the Social Performance Task Force.

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

Jean-Louis de Montesquiou - DIRECTOR

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

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

Judy Ngarachu - DIRECTOR

Judy Ngarachu is the Regional Director – East Africa for Oikocredit, a global development finance organization. In this capacity she oversees and manages the operations of Oikocredit in Kenya, Uganda and Tanzania. Judy has lived and worked in the United States of America for nine years.

She is a banker by profession having worked in corporate banking at Bank of America (formerly Nations Bank) in Baltimore, Maryland for seven years in various capacities.

She earned her Bachelor of Science in Finance degree (honors) from Morgan State University in Baltimore, Maryland and a Masters of Business Administration degree (honors) from Loyola College in Maryland.

Lydia Ochieng-Obbo - DIRECTOR

Lydia Ochieng-Obbo is an Attorney at Law. She is a senior member of the legal profession in Uganda and consultant with broad experience in business law practice, banking, private sector institutional building and development policy research, advocacy and regulatory reform.

She is also well versed with supervision and regulation of financial institutions and serves on a number of other boards including the board of Public Procurement and Disposal of Public Assets.

Andrej Machacek - DIRECTOR - ALTERNATE

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

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

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

Tor G. Gull - DIRECTOR - ALTERNATE

Mr. Tor G. Gull is a Director of Uganda Finance Trust Bank. He has served on a number of boards in Finland and has wide experience in banking and credit institution management. He has worked with Development projects Kenya and Tanzania as well as in South East Asia and China. He has served on a number of Boards in Finland and is currently the Managing Director of Oikocredit Development Finance Institution, Amersfoort Netherlands. He represents Oikocredit on the Board of Finance Trust Bank.

Jeremy Hadjenberg- DIRECTOR - ALTERNATE

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

Dennis Kakeeto - EXECUTIVE DIRECTOR

Dennis holds a Master's degree in Business Administration majoring in Finance & Accounting, and a Bachelor of Commerce degree in Accounting from Makerere University, currently enrolled for a Chartered Financial Analyst course (USA). Dennis has over 15 years' experience in Finance and Banking, having held various positions in Commercial Banks and Microfinance Institutions.

He served as the Head of Finance and Administration Uganda Finance Trust, served at Centenary Bank in branch banking operations, Finance and Treasury, left at the level of Principal Accountant. He also served as Assistant Finance Manager, Diamond Trust Bank Uganda and as Chief Finance Officer, Pearl Microfinance Limited formerly Feed The Children Uganda.

He is a member of the Uganda Institute of Bankers, Institute of Corporate Governance of Uganda and a certified balanced score card practitioner. He is enrolled for leadership training at Wharton Business School, University of Pennsylvania in USA, Coaching programs for mission, leadership and performance by CREATIVE MENTIER, OXFORD England, under the women in leadership by WOMENS WORLD BANKING CENTRE FOR MICROFINANCE LEADERSHIP, New York and also undertaking a one year CEO Apprenticeship Program by STRATHMORE UNIVERSITY, Nairobi.

Patricia Kemirembe Katende - COMPANY SECRETARY / HEAD, LEGAL

Patricia Kemirembe Katende has 10 years of professional experience in law and in-house legal counsel services. She is a Charted Corporation Secretary, a member of the Institute of Chartered Secretaries and Administrators (ICSA) UK, a holder of an honors Bachelor's Degree in Law from Makerere University a post graduate diploma in legal practice from the Law Development Centre, Kampala. Patricia is an enrolled Advocate of the High court and all courts subordinate to it. She holds a valid Law practicing certificate. Patricia is a member of the following professional bodies; The East African Law Society, The Uganda Law Society, The Institute of Corporate Governance of Uganda, ICSA Uganda Chapter and ICSA International. She has also attended various professional trainings in continuous legal profession development and in Corporate Governance.

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

Senior Management

Annet Nakawunde Mulindwa
MANAGING DIRECTOR

Dennis Kakeeto
EXECUTIVE DIRECTOR

Patricia Kemirembe Katende
COMPANY SECRETARY/
HEAD, LEGAL

Ruth Doreen Mutebe
HEAD, INTERNAL AUDIT

Rachel Nantongo
HEAD, OPERATIONS

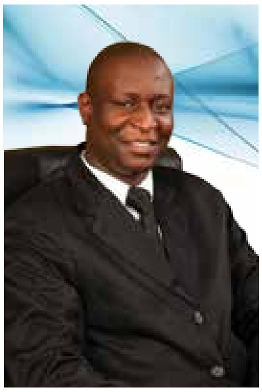
Clare Tumwesigye
HEAD, MARKETING

Monica Sanyu
HEAD, HUMAN RESOURCE

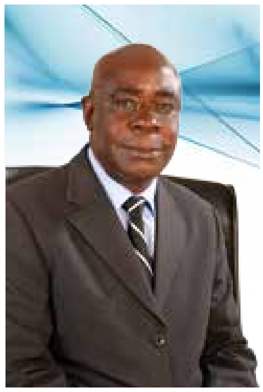
Christine Namata
HEAD, FINANCE

Mwanje Charles Mark
HEAD, RISK

Anthony Gumira
HEAD, CREDIT

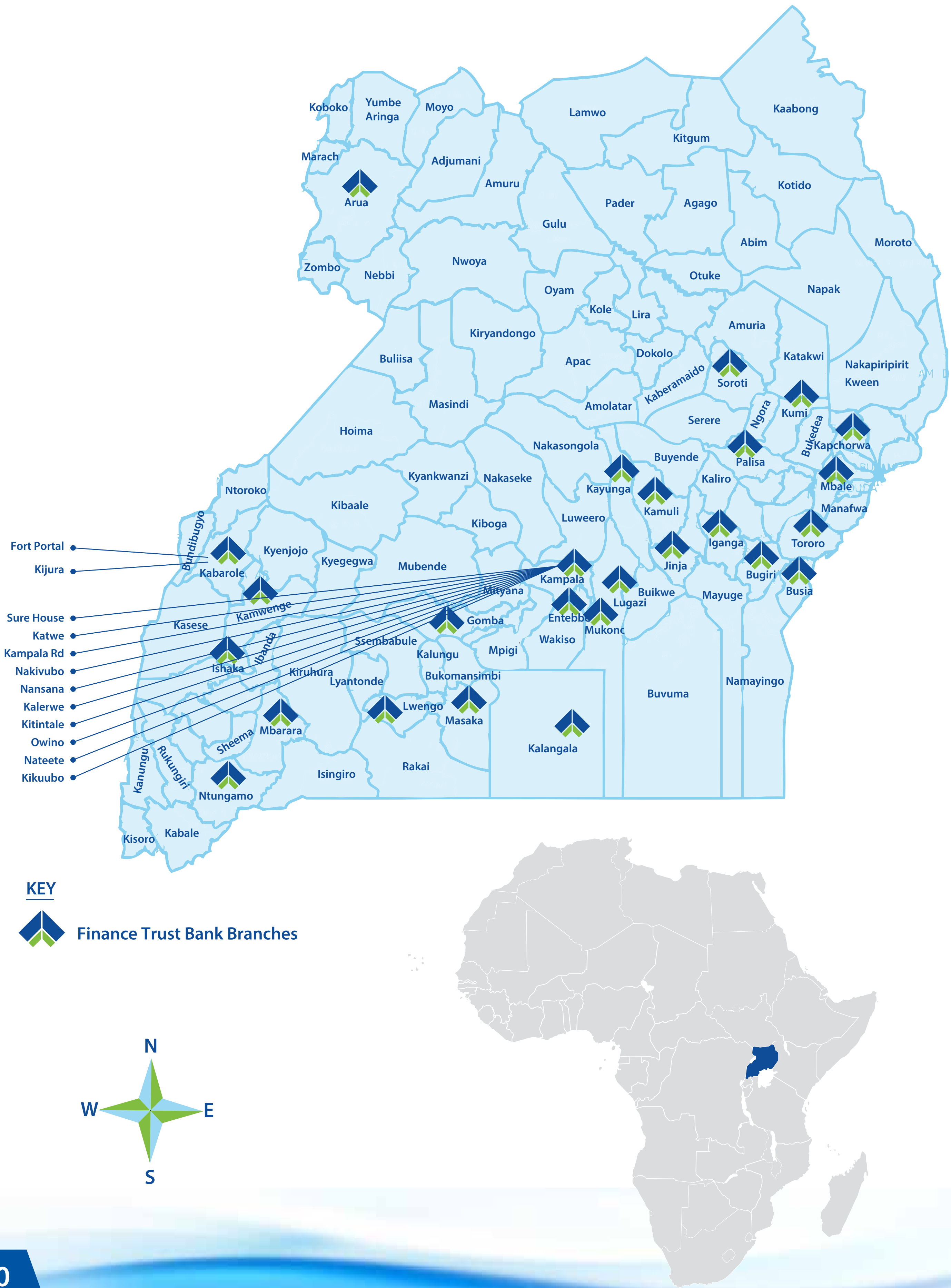


George Musaanya
HEAD, ICT



Evarest Nsereko Kyewalabye
COMPLIANCE MANAGER

Our network of 36 branches countrywide



Corporate Social Responsibility – Lives impacted

At Finance Trust Bank we long discovered that corporate social Responsibility has great benefits for the institution. However we also can attest to its direct benefits to the people we touch through various activities.

Health

Supporting a maternity ward in a Health Center IV

In March 2014, during Finance Trust Bank normal business operations in Budaka district, the Institution discovered that Budaka health Centre IV did not have delivery mattresses. Under its CSR Finance Trust Bank 100 mattresses to the Health Centre. Again, we are sure that this gesture is daily touching the lives of women since bringing children to the world is an everyday occurrence.

Mother of 15 receives Donations from Finance Trust Bank

We are confident of the fact that in our way, we impacted a mother of 15 children from Kaberamaido. We are confident that the items were donated to her by Finance Trust Bank staff changed her situation and perhaps her thoughts on banks. The mother of 11 children delivered quadruplets bringing her total number of children to 15. She received beddings, clothing, and other basic necessities.

From Crawling to Walking

Kasiri Noel's story run in Saturday Vision 7th June 2014. This 13 year old girl who lives in Namwendwa used to crawl 8km to and from Namukunhu primary school with determination to have education. She has since been operated at Corsu Hospital and received rehabilitation at Katalemwa Centre. Finance Trust Bank visited her at her home in Namwendwa and donated personal items to her.

Environment

Working for a cleaner environment

Finance Trust Bank through its branch in Arua was active in the cleaning of the Booma grounds of Arua District. Protecting the environment means that children in the future will have access to clean play grounds for generations to come. We are proud that we did our part.

Youth and Sports

In April 2014, Finance Trust Bank was a part sponsor of the International Youth Soccer league of 2014 and also donated jerseys to an under 14 football team to enable them participate in Soccer league. This team of brilliant footballers could not participate in the soccer team without jerseys and that is part of what Finance Trust Bank facilitated. This group of boys live in Kamwokya and while there individual schools could not sponsor them to the tournament, they were organised into a team by a Good Samaritan who sought our help purchasing jerseys for them. Again, we are confident that our effort directly impacted these boys giving them memories they possibly would never have encountered.

Using Risk Management to unlock the Bank's potential for reaching greatness

Risk management has been traditionally looked at more as a control and business support function than a business driver

Such an attitude is true to organizations that have yet to exploit the full benefits of a comprehensive risk management system. The benefits that accrue from strengthening the Banks risk management system are far reaching and a clear manifestation of the institution's commitment to providing a return to its shareholders. It is true that Banks that have fully embraced proper risk management practices have a longer life expectancy and live healthier lifestyle than those with weak risk management systems.

At Finance Trust Bank, our new slogan is "Risk is everything". This adage that was introduced by the Managing Director has changed the way we look and do things in the Bank.

Our focus on Risk Management means that we are positioned in a way that can effectively mirror our journey and learn from our experiences in every step of doing business. We are also able to look beyond the horizon to effectively project the future of our company. This then translates into increased efficiency and a guaranteed positive return to our shareholders.

The question however is, how are we able to derive this greatness? At FTB, we embraced risk management way before transformation and this has become part of the Bank's DNA. It translates into the way we live and do things on a day to day basis and is embedded in our core values and strategic initiatives.

When we use a risk based approach to running business, we are able to effectively plan and control the level of exposure arising from new business ideas. This defines our risk appetite as a Bank. To effectively derive greatness, the Bank has increased oversight on the credit, market and operational risk control activities through distinct risk functional units that are independently run to ensure increased effectiveness in managing the risks that arise from these risk categories. The Bank has also developed a comprehensive operational risk management framework which has reduced the amount of exposure of the Bank to common people driven risks such as human errors and frauds.

The Bank has a well-defined risk management strategy that is propelling us to greatness by ensuring that we take on fast but calculated growth. We believe that if we are in this business to manage risk and if we effectively do this, then everything will run smoothly. All new innovations and products are subjected to a comprehensive risk assessment test that guarantees the Bank that the benefits of undertaking such ventures outweigh the cost and this in turn guarantees a return for our share holder. This approach has increased transparency, accountability and ownership within the organization and all managers are aware of their responsibility in promoting sound corporate governance from a risk perspective.

In order to ensure the risks taken by the Bank do not exceed the institution's capability to cover these risks, a basic method for monitoring the risk-bearing capacity has been introduced. The method focuses on material risk exposures as defined in the Bank's risk strategy and quantifying such risks in a conservative way and comparing them to the economic capital available at the Bank to cover these risks, if they materialize. This role is effectively carried out by the management and Board risk committees which is also responsible for setting risk exposure limits in undertaking certain business decision.

The Bank has been able to establish a strict separation between "Commercial" and "Operations" functions whereby the "Commercial" area holds the main responsibilities for product and client related activities (revenue generating or "Front-Office" functions), whereas "Operations" is in charge for typical Middle- and Back-Office functions, including reconciliations, administrations, Risk Management and Control functions. Management takes responsibility that either function is conducted in equilibrium to ensure sustainable business operations and development.

Such initiatives have been fundamental in driving the Bank to greater heights and guaranteeing control of any leakages that would significantly affect the Bank's performance. Strategic decisions have been made in view of the resultant risk exposures with continuous reflection of the impact of such decisions on the Bank's capital and earnings.

How we handle our Human Resource - the invaluable asset

The Human resource department strives to attract a pool of technically competent, customer-focused individuals who are able to implement the banks' business strategy. A competitive pay package and a benefits policy, which is comprised of staff friendly benefits, serve as a "pull" factor and promptly address the financial needs of the staff. A formal sourcing system ensures a young and vibrant workforce.

A medical insurance cover taken out for all staff ensures quick access to proper medical treatment and rehabilitation in cases of injury. A corporate social policy ensures injured staff are taken care of for a given period. It also offers internship opportunities to students.

Internal processes ensure quick turnaround time for all staff related requests and a flexible leave policy addresses the specialised needs of the employee, such as burnout and furthering their education. The employee communication structure engages employees through contributions to the quarterly staff newsletter and the seasonal HR updates.

The corporate values principles ensure that leaders and employees develop and demonstrate supportive behaviours that engage others to ensure the success of the strategic themes. A recognition structure assures a culture that aligns and recognizes high achievers. Continuous training programs enable people readiness by aligning leadership talent (succession planning) and skills enhancement for better results.

Quarterly performance review meetings ensure performance excellence is enforced as well as instil a performance -focused culture to ensure high financial returns.

Our Corporate Culture is embodied in our core values of Friendliness, Integrity, Responsiveness, Equity.

Our valued partner – The Employee

At FTB every employee is a valued partner and a key resource for the business. We strive to optimise their potential through our professionalism. Our staff are at the forefront of the achievement of all the milestones recorded. A big thank you to the team, for a job well done!

Motivation through recognition

Capacity building

Capacity building plays a fundamental part in ensuring skills enhancement at FTB. In house as well as external need-based trainings are conducted to equip staff with the necessary skills to implement the strategy.

We put women first. How do we do it?

Some of the initiatives taken to inculcate the significance of the women cause to the Bank staff include workshops for female staff moderated by notable female personalities in Uganda. Such a workshop was held on 6th September 2014 at Protea Hotel, Kampala.

The Managing Director, Mrs. Annet N. Mulindwa presenting women products to mama Graca Machel Mandela during her recent visit to Uganda

Another initiative targeting the female staff are the mentoring walks. FTB female staff participated in the 7TH Uganda Mentoring Walk - November 15th 2014 which took place from Centenary Park to Kitante Primary School.

The objectives of the Mentoring Walk include;

- To bring together women professionals and emerging women professionals in mentoring partnerships in order to create a network of role models.
- To illustrate women's dedication to building leadership and spotlight the accomplishments of women in Uganda
- To initiate a series of activities which identify, guide and support young women "to lead a life of Choice not Chance" so that they make positive transitions into adulthood

Sports

Health in mind and body is a healthy mix used to release stress and build the team cohesion. Participation of staff in sports activities is encouraged, notably in the Uganda Bankers Sports gala. The Trust Champions were eager participators at the maiden appearance of FTB at the Sports gala 2014 in both indoor and outdoor activities. The team was gender sensitive.

Consolidating the New Platform (BR.NET) Gains emanating from Value Additions

Finance Trust Bank is currently using 'Banker's Realm' (BR.Net) as our core banking platform having migrated to the new system in February, 2013. It's a Web-Based application and highly modular. BR.Net boosts of a number of unique features that we've capitalized-on to serve our clients better as highlighted below:-

- Finger Print Authentication System: - Allows use of biometric-enabled devices for authentication, leading to fast and accurate posting of transactions, thus limiting the margin for fraud.
- Mobile Commerce Module & Platform: - this has eased integration to the core banking application which enabled FTB customers and walk-in customers to access financial services right in the palm of their hand using mobile devices e.g. Financial Payments, Loans etc...
- Platform Independence & Ease of Integration: - the platform is capable of handling multiple delivery/3rd Party channels like Utility Interfaces (NW&SC, UMEME, URA, NSSF and KCCA), Mobile Money Integration, ATMs, POS, SMS Banking and Remote Account Opening (RAO). Currently, we're utilizing all these avenues and delivery channels to reach out to our existing customers, the un-banked and the under-banked.

Finance Trust Bank continues to consolidate the gains from the implemented BR.Net platform using innovative ways to deliver business value, by creating competitive advantage, optimizing business processes and foster closer system integration/ collaboration of all possible vendor solutions and modules within BR.Net.

In return FTB has offered additional confidence to our customers in a number of aspects as follows:-

1. Fast and accurate transaction posting via Biometric Account Access & Verification
2. Unlimited access to Over-The-Counter financial services 24/7 from the comfort of homes/offices via Mobile Devices
3. Access to financial services via multiple delivery channels like ATMs, POS, mobile phones, SMS alerts and Internet.
4. Customer data is secure due to high data encryption standards employed and increased system up-time due to redundancy mechanisms put in place emanating from the duo links deployed at all our branches.
5. Easy processing of services, thus improving customer service efficiency and turnaround time (TAT).

Security Remediation & Infrastructure Optimization Project

FTB's Network Infrastructure has undergone optimization and its Network Security posture considerably improved. Considerable effort has been made to ensure that all the recommendations from the KPMG System Audit Report are implemented. At least 70% of the recommendations there-in, namely; Security Matrix, Access Controls, Monitoring and ICT General Control recommendations among others have been implemented as follows:-

- Compliance with industry requirements for network security – Disabled insecure network services, ports and provided access control lists.
- Improved link utilization of existing hardware – Provide bandwidth optimization and monitoring on all data links.
- Centralized network control and management – To ease auditing, network assessment and monitoring.
- Provision of hierarchy and segregation in the network in a bid to increase performance.
- Assurance of Data protection and privacy – Ensure financial and customer data is secured through encryption of network traffic
- Assurance of operational stability as a result of logical segmentation of network zones – Implementation of Virtual Local Area Networks.

Our look over the years may have chang

1984

Not-for-Profit

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

1 office

1997

NGO

Providing loans to women groups for financial empowerment

9 branches

ed, but our mission has stayed the same

2005
MDI Status

Came under regulation by the Central Bank as an MDI (Microfinance Deposit Taking institution)

21 branches

2008
Re-Branding MDI

The MDI underwent a re-branding phase to consolidate gains achieved and to open it up to a bigger market

24 branches

2014
Commercial Bank

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

34 branches

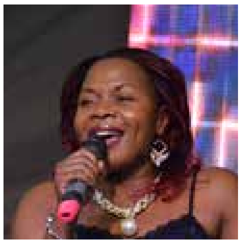
U-TRUST

FINANCE trust
Let's Grow

FINANCE trust BANK
Putting Women First

Celebrating commercial bank status

Finance Trust Bank was launched at a grand dinner held at Serena Hotel, Kampala on 17th January 2014. The Chief Guest was His Excellency, Yoweri Kaguta Museveni, the President of the Republic of Uganda. The Bank hosted amongst others, the Governor Bank of Uganda, Cabinet Ministers, founder members, customers, partners and wellwishers.












FINANCE
trust
BANK

Chairperson's Statement

Hon. Eng. Irene Muloni

INTRODUCTION

Distinguished shareholders, it is my privilege and pleasure to present to you the annual report of Finance Trust Bank, for the financial year 2014. 2014 was our first year in operation as a full-fledged commercial bank. We successfully sustained the bank's profitability momentum despite the impact of unforeseen transformation and expansion costs and the sluggish growth trends in the market.

I would like to highlight the major events within the global and domestic environment and how they impacted our business, in addition to achievements of our Bank during 2014.

In 2014, the global economy is estimated to have expanded by 3.3 percent, which is lower than the initial growth projection, on account of weak growth in the Euro zone, Japan, China, and Russia; and the sharp drop in oil prices, which continues to be a drag on economic activities of the major oil exporting economies. Growth in the Euro zone remains fragile with considerable excess capacity and some countries remain particularly vulnerable to adverse demand and supply-side shocks.

Global inflation remained subdued in 2014 but with diverse trends across the development divide, driven largely by low commodity and energy prices, abundant spare capacity, subdued demand, and low inflation expectations, particularly amongst the advanced economies (AEs), while structural problems, exchange rate depreciation and in some cases political tensions, have triggered increases in inflation in emerging market economies (EMEs) and developing economies.

Regional inflation rates reduced notably in the financial year, 2013/14, to 6.0 percent from 6.6 percent registered the previous financial year as all countries maintained single-digit inflation rates from the second quarter of the year. This enhanced a fall in interest rates, a corresponding drop in non-performing loans (NPLs) and hence, region-wide financial stability

Domestically, BoU continued to pursue a cautious monetary policy stance throughout 2014 aimed at stimulating output without jeopardizing the inflation objective. The CBR was maintained stable at 11 percent for most of the second half of 2014 with a band of +/- 2% and a margin on the rediscount rate at 3 PPs on the CBR. This stance was premised on the projected inflation and output path. Domestic Inflation remained subdued with headline and core inflation averaging 1.7 percent and 2.6 percent, respectively in the last quarter of 2014.

FTB's Financial Performance

The financial performance for the year ended December 2014 reinforces the resilience of the Bank amidst volatile economic times. The Bank recorded profitability of Ushs 1.94bn which is 11.43% growth year on year at the end of 2014 despite the transformation costs that the bank continued to absorb. The headline performance reflects the simultaneous growth in interest and non-interest income, which grew by 19.9% and 41.8% respectively.

The bank achieved 32% growth in total assets mainly funded from the 73.4% growth in customer deposits and 12.5% growth in shareholders' funds. During the same period, the bank registered a 54.9% 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. 6bn to Ugx 8.9bn.

> *The bank achieved 32% growth in total assets mainly funded from the 73.4% growth in customer deposits and 12.5% growth in shareholders' funds.*

Net loans and advances grew by 30.3% due to aggressive increased product offering, increased mobilization efforts by staff, better customer service and improved turnaround time.

Community Engagement

In the area of Corporate Social Responsibility, the Bank executed various initiatives, spanning from human capital to economic development oriented projects, which had a direct positive impact on our brand and communities.

The Bank undertook corporate social responsibility initiatives in the areas of health, welfare and education specifically touching women as the Bank's primary target group. The Bank spearheaded a capacity development initiative for the female staff in order to empower them with life skills that make them better workers and managers. The bank continues to target the youth as part of its primary market and is keen on developing their social skills and will continue to engage and partner with them in activities that foster youth empowerment and development.

Board Appointments

In line with the Bank's commitment to sustain a strong corporate governance structure and deepen institutional knowledge, the new shareholders took up board positions as approved by BOU. These included;

1. Lydia Koros and Andrej Machacek to represent PEAMF with the later as the alternate of the former and Lydia is currently the Chairperson of the Board ALCO committee.
2. Loic de Cannière and Stephane Sapor were also approved to represent RIF North 1 with Stephane as the Alternate for Loic. Loic is the Chairperson of the Board Audit committee.
3. Tor Gull was approved as the substantive Director for Oiko Credit to be alternated by Judy Ngarachu.

We welcome all the new members to the Finance Trust Bank board.

2015 Outlook

The key factors which will drive the banks performance in 2015 are sustainability of growth especially in the micro finance and SME segment, the effectiveness of the deposit mobilization strategies in order to grow low cost deposits and reduce the overall cost of funding and staff productivity. We also continue to strengthen our risk management capabilities to ensure effective mitigation of existing and emerging risks in business environment.

Appreciation

In conclusion, 2014 was interesting, challenging, busy and successful year for the Finance Trust Bank. However, the concerted efforts of all our stakeholders made it possible for us to sustain our profitability in the year. I am therefore very appreciative of our customers whose loyalty is our greatest asset; our staff, whose tireless devotion to duty will drive us to excellence and our senior management team and board members, whose vision and guidance ensure that our mission of serving the low and medium income people especially women remains the true essence of our existence.

Hon. Eng. Irene Muloni
CHAIRPERSON, BOARD OF DIRECTORS

Managing Director's Statement

Mrs. Annet Nakawunde Mulindwa

STRATEGIC PERFORMANCE

The year 2014 was remarkable for Finance Trust Bank as a Tier 1 Commercial Bank. Finance Trust Bank transformed into a Tier 1 Financial institution in December 2013 and last year was the first year it operated as a fully-fledged commercial Bank. The Bank was able to achieve all its set strategic objectives and targets during the year by weathering all challenges that came along with the transformation. The Bank's success in the year is domiciled on the three pillars of success that focus on growth, excellent customer experience and operational excellence.

Business Growth

The Bank registered growth in the loan portfolio, deposit book and other revenue streams. This has enabled the Bank to grow its profitability and increase its market share in both number of customers and volume of business. We have strengthened our brand by increasing our brand visibility through above and below the line advertising channels. The increase in our brand strength has enabled the Bank to attract and retain the right skills and knowledge in addition to the implementation of a continuous human capital development program which has increased our staff skills set and retention of critical talent. These combined have led to increased employee productivity and increase in staff performance at all levels. The total staff compliment grew to 545 in 2014 from 493 in 2013.

Customer Experience

The bank has remained true to its vision by offering affordable financial services to its customers through increased product offering and ensuring good and consistent customer service. During the year, the Bank introduced a number of new low cost products that are tailored to addressing our customer requirements and needs. The new products introduced in 2014 include; Asset Financing Loan, Bank Overdrafts, Bank Guarantees, Youth Special Loan and Youth Solidarity Loan. The Bank overdrafts and guarantees are in line with the Bank's transformation objective.

Delivery channels

In 2014, the Bank increased its service delivery channels by opening three additional branches at Kikuubo, Lwengo and Nansana with an aim of increasing outreach to the financially excluded communities and supports the low income people's development initiatives. In addition, the Bank introduced Simu Yo Bank Yo a mobile banking platform that has enabled the Bank to extend its services beyond the normal working hours and places where the bank has no branches.

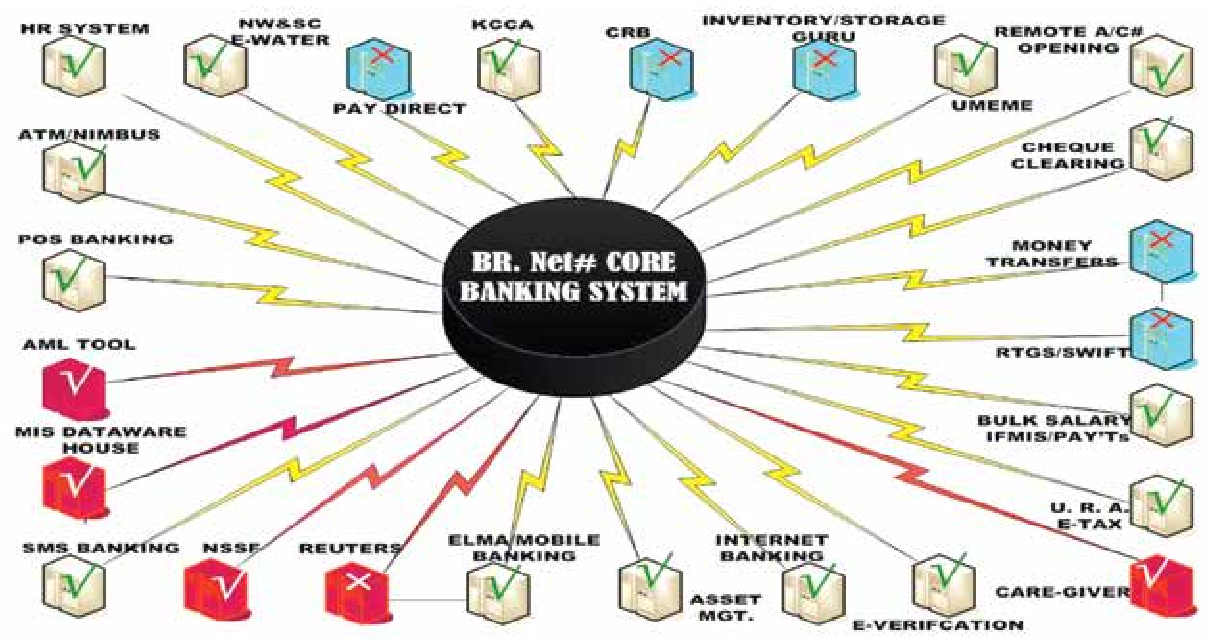
Customer literacy

In 2014, the Bank introduced non-financial value added services to its customers. The Bank launched its customer financial literacy and communications program in a bid to improve its client's book keeping knowledge and practices. Such interventions have enabled our customers to improve their investment decisions and knowledge of their businesses.

Leveraging technology

On the side of operational excellence, the Bank has been able to leverage technology to improve its

> *The increase in our brand strength has enabled the Bank to attract and retain the right skills and knowledge in addition to the implementation of a continuous human capital development program*



service delivery efficiency. The Bank has strategically invested in technology as a key business initiative that will aid the achievement of operational excellence in the market. The bank managed to build interfaces to collect on behalf of Umeme, URA and also started on interfaces to collect for NSSF and KCCA. Consolidating the gains from the additional technologically aided delivery channels will pave way for the Bank to deliver business value, by creating competitive advantage and optimizing business processes in the years to come. In 2014, the bank implemented a number of Value Added Services/Solutions and supporting interfaces as shown in the picture above.

These robust ICT systems have supported the provision of fast, reliable and convenient financial services through a wide range of delivery channels in a secure environment.

Risk Management

The Bank has in addition, increased the focus on risk management as a key pillar in achieving operational excellence. In 2014, the bank focused on streamlining its business processes and standardization of service delivery practices across all its delivery channels. By focusing on this, the bank has been able to ensure that all its critical services are up and running at all times. This is reflected in the new business continuity plan that is tailored to the strategy of the Bank and customer expectations. The focus on risk management has increased the level of accountability and ownership across the Bank.

To foster increased compliance with the expectations of Financial Intelligence Authority, the Bank introduced an Anti-Money Laundering (AML) desk in 2014. The AML desk has enabled the Bank to increase focus on monitoring of money laundering activities and enhanced the KYC processes in addition to customer screening and reporting of suspicious transactions.

FINANCIAL PERFORMANCE EXTRACT

Despite the increasing competition and macroeconomic challenges, we grew our loan book by 30.3% from 60.2Billion in 2013 to 78.5Billion in 2014. We remained focused on creating quality assets, as reflected in the 10% drop in written off loans as we responsibly take advantage of growth opportunities to increase our market share.

The bank registered growth in deposits by 72.3% from Ugx 46.1Billion in 2013 to Ugx 79.4Billion in 2014. Shareholders' funds grew by 12.5% and the Bank's operating profit grew significantly from shs 543million in 2013 to shs 1.97Billion in 2014. The bank's total assets stood at Ugx 121.8bn Billion as at the end of 2014.

We look forward to the continued leveraging of capital in order to improve returns to our shareholders

KEY INDUSTRY DEVELOPMENTS

The banking industry in Uganda remained financially sound , with a more than double core capital adequacy ratio as compared to the statutory minimum. The banking sector's non-performing loan ratio improved, but the high credit risk remained a concern especially in the microfinance loans where our largest portfolio resides.

To counter the above, Bank of Uganda implemented micro prudential measures to ensure that banks enhance their asset quality and cleaned up their balance sheets in addition to closely monitoring banks' loan to value ratios for residential, commercial and land mortgages.

CONCLUSION

Going into 2015, our vision remains to consolidate on the gains made over the last three years and position the Bank as a preferred and affordable Microfinance Bank. Our business will continue to be done in the most transparent and ethical manner building on the trust of all our stakeholders.

On behalf of the Management, I would like to appreciate our Board of Directors for the guidance, Bank of Uganda for the oversight, the customers for their continued loyalty and belief in us to serve and meet their banking needs, our external auditors (KPMG), the suppliers and all other stakeholders for the unwavering support. Finally, I would like to thank all the staff for their continued commitment and dedication to the Bank and I am confident that with your support, 2015 shall be a more successful year.

Thank you

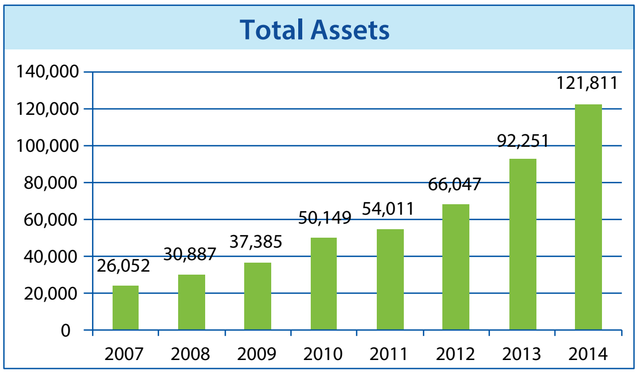
Annet Nakawunde Mulindwa (Mrs.)

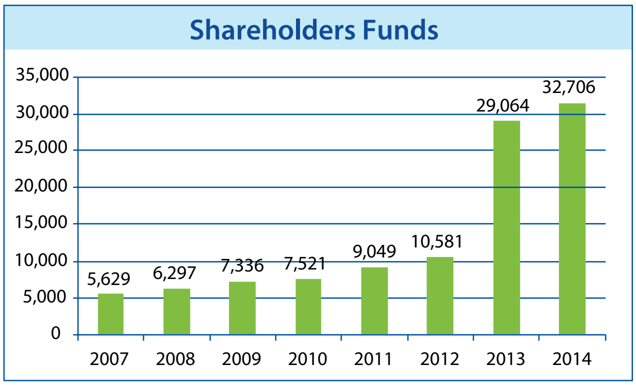
Financial highlights of 2014

Total assets grew by **32.0%** from **UShs 92.3bn** to **UShs 121.8bn**

Deposits grew by **72.3%** from **UShs 46.1bn** to **UShs 79.4bn**

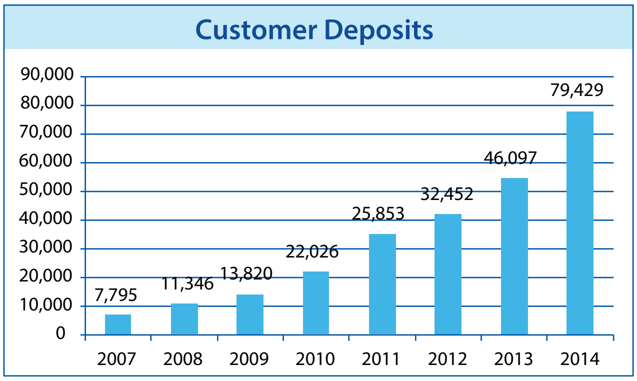
Net loans and advances increased by **30.3%** from **UShs 60.2bn** to **UShs 78.5bn**

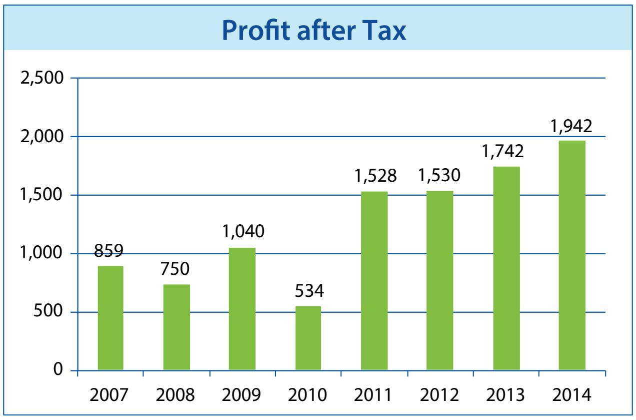




Shareholders' equity went up by **12.5%** from **UShs 29.1bn** to **UShs 32.7bn**

After tax profits grew by **11.4%** from **UShs 1.742bn** to **UShs 1.942bn**





Corporate Information

Bankers

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

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, Uganda

Bank of Uganda
Plot 37/45 Kampala Road
P. O. Box 7120
Kampala, Uganda

External Legal Advisor

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

Take advantage of every business opportunity with the *Trust Bank Guarantee*

The Trust Bank Guarantee helps customers engaged in execution of contracts and tenders with government, international organizations and private institutions. These may be Performance Guarantees, Bid security/bonds and Advance Payment Guarantees.

Benefits

- Customer gains trust from their business partners to execute contracts/ bids
- Affordable interest rates
- Flexible repayment plans
- Multiple disbursements offered
- Support and advisory services to customers.
- Relieves customer from upfront commitment of capital
- Eases customer's business transactions through provision of financial solutions

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

Directors' Report

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

The directors submit their report together with the audited financial statements for the year ended 31 December 2014, which discloses the state of affairs of Finance Trust Bank Ltd.

BACKGROUND

Finance Trust Bank was licensed to operate as a commercial on 11 November 2013 having successfully transformed from an MDI. The company's share capital is Shs 26.98bn, a level that is over and above the FIA required minimum of Shs 25 billion. The shareholding distribution by investor is as per table below:

Shareholder	Percentage of shareholding
UWT - Uganda Women Trust	20.12%
Oikocredit	19.59%
RIF North 1	18.30%
Progression East African Micro Finance Equity Fund (PEAMEF)	18.30%
I&P Afrique Entrepreneurs	14.21%
Founder members	9.48%
Total	**100%**

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 1,942 million (2013: Shs 1,742 million).

DIRECTORS
Directors who held office during the year.

Hon. Eng. Irene Muloni	Board Chairperson
Mrs. Annet Nakawunde Mulindwa	Managing Director
Mrs. Grace Aliakai	Director
Mrs. Lydia Ochieng Obbo	Director
Rtd. Justice Mary Maitum	Director
Mr. Jean-Louis de Montesquiou	Director
Mrs. Lydia Koros	Director
Mr. Loic de Cannière	Director
Mr. Tor G. Gull	Director
Ms. Judy Ngarachu	Director – Alternate to Tor Gull
Mr. Jeremy Hadjdenberg	Director – Alternate to Mr. Jean-Louis de Montesquiou
Mr. Andrej Machacek	Director – Alternate to Lydia Koros
Mr. Stephane Sapor	Director – Alternate to Loic de Cannière
Mr. Dennis Kakeeto	Executive Director

AUDITOR
The auditors KPMG have completed their term of office and will accordingly exit in compliance with section 67 of the Financial Institution's Act 2004.

Approval of the financial statements:
These financial statements were approved by the board of Directors on 26th March 2015

BY ORDER OF THE BOARD SECRETARY

Date: 28th April 2015

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 50 to 101 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 2014. 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 26th March 2015 and were signed on its behalf by:

HON. ENG. IRENE MULONI	LYDIA OCHIENG-OBBO	ANNET N. MULINDWA	PATRICIA KEMIREMBE
Board Chairperson	Director	Managing Director	Company Secretary

Date: 26th March 2015

Independent Auditor's 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 50 to 101 which comprise the Statement of financial position as at 31 December 2014, 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 2014 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 : 28th April 2015

Achieve your business goals

Trust Asset Financing Loan

The Asset Financing Loan helps you purchase movable income generating assets for your business. Whether you need earth movers, taxis, buses, boda bodas or trucks to expand your business, come to Finance Trust Bank today and let our Asset Financing Loan help you grow.

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 loaders and graders

Head Office

Block6, Plot 121& 115 Katwe. P.O. Box 6972, Kampala
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Email: contact@financetrust.co.ug **www.financetrust.co.ug**

FINANCE trust BANK

Putting Women First

Financial Statements

Statement of comprehensive income	Notes	2014	2013
		Shs '000	Shs '000
Interest income	4	23,653,607	19,721,117
Interest expense	5	(5,159,699)	(4,347,575)
Net interest income		**18,493,908**	**15,373,542**
Net fees and commission income	6	13,529,559	8,906,539
Other Income	7	634,735	507,029
Grant Income	24	92,065	126,415
Designated fund income	21	649,167	577,879
Total Operating Income		**33,399,434**	**25,491,404**
Impairment losses on loans and advances	12	(1,721,129)	(1,049,171)
Net income after impairment		**31,678,305**	**24,442,233**
Staff Costs & other benefits	8(a)	(15,149,294)	(12,785,316)
Depreciation & Amortization	14 & 15	(1,890,452)	(1,680,661)
Operating expenses	8(b)	(12,360,317)	(9,433,139)
Profit before income tax		**2,278,242**	**543,117**
Income tax	9	(336,720)	1,199,318
Profit for the year		**1,941,522**	**1,742,435**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,941,522**	**1,742,435**

The accounting policies and notes set out on pages 55 to 101 form an integral part of these financial statements

Statement of Financial Position	Notes	2014	2013
		Shs '000	Shs '000
ASSETS			
Cash and Bank Balances	10(a)	13,477,380	13,218,092
Deposit with Bank of Uganda	10(b)	6,194,568	50,000
Placements with other Banks	11	8,902,552	6,018,642
Loans and advances to customers	12	78,451,602	60,191,453
Due from related parties	23	-	32,115
Other assets	13	4,099,376	3,279,672
Current income tax recoverable		212,379	212,379
Deferred income tax asset	16	1,160,425	1,497,146
Property and equipment	14	7,343,008	5,770,326
Intangible assets	15	1,969,402	1,981,060
Total Assets		**121,810,692**	**92,250,885**
LIABILITIES			
Customer deposits	18(a)	78,744,585	45,414,605
Loan guarantee fund	18(b)	684,279	681,907
Bank overdraft	19	-	-
Other liabilities	20	2,688,528	3,264,351
Borrowed funds	21	5,205,937	12,601,873
Finance Lease	31	474,048	172,546
Designated funds	22	441,935	246,108
Due to related parties	23	-	-
Employee benefits provisions	24	396,070	288,623
Capital grants	25	469,409	516,493
Total Liabilities		**89,104,791**	**63,186,506**
EQUITY			
Share capital	25	26,982,973	26,085,402
Share premium	25	802,429	-
Regulatory credit risk reserve	26	1,067,937	397,866
Retained earnings		3,852,562	2,581,111
Total Equity		**32,705,901**	**29,064,379**
Total Equity and Liabilities		**121,810,692**	**92,250,885**

The financial statements on pages 50 to 101 were approved for issue by the Board of Directors on 26th March 2015 and signed on its behalf by:

HON. ENG. IRENE MULONI
Board Chairperson

LYDIA OCHIENG-OBBO
Director

ANNET N. MULINDWA
Managing Director

PATRICIA KEMIREMBE
Company Secretary

The accounting policies and notes set out on pages 55 to 101 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 '000
Year ended 31 December 2014							
At January 2013	**25**	**8,585,402**	**-**	**1,414,646**	**-**	**580,452**	**10,580,500**
Profit for the year		-	-	1,742,435	-	-	1,742,435
Transfer to regulatory credit risk reserve		-	-	182,586	-	(182,586)	-
Transactions with owners							
Ordinary share issue		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**
At December 2014							
At I January 2013	25	**26,085,402**	**-**	**2,581,111**	**-**	**397,866**	**29,064,379**
Profit for the year		-	-	1,941,522	-	-	1,941,522
Transfer from regulatory credit risk reserve	26	-	-	(670,071)	-	670,071	-
Transactions with owners							
Ordinary share subscription	25	897,571	802,429	-	-	-	1,700,000
31 December 2014		**26,982,973**	**802,429**	**3,852,562**	**-**	**1,067,937**	**32,705,901**

The accounting policies and notes set out on pages 55 to 101 form an integral part of these financial statements

Statement of cash flows	Notes	2014 Shs '000	2013 Shs '000
Cash flows from operating activities			
Interest receipts		23,207,277	18,997,077
Interest payments		(3,967,825)	(4,285,612)
Net fee and commission receipts		12,630,755	9,136,856
Other income received	7	150,488	340,745
Recoveries from loans previously written off	7	293,367	164,069
Payments to employees and suppliers		(27,728,936)	(18,447,348)
Income tax paid		-	-
Cash flows from operating activities before changes in operating assets and liabilities		**4,585,126**	**5,905,787**
Changes in operating assets and liabilities:			
- loans and advances		(18,035,904)	(11,433,917)
- other assets		(585,294)	111,288
- customer deposits		32,110,079	12,772,291
- loan guarantee fund		2,373	191,758
- other liabilities		81,954	153,088
- Employee benefits		(296,008)	(205,956)
- amounts due to related parties		32,115	(1,358,667)
Net cash from operating activities		**17,894,441**	**6,135,672**
Cash flows from investing activities			
Placements with other banks		(2,883,910)	(5,498,980)
Purchase of property and equipment	14	(3,075,703)	(2,077,128)
Purchase of intangible assets	15	(398,082)	(2,021,121)
Proceeds from sale of property and equipment		37,690	17,306
Net cash used in investing activities		**(6,320,005)**	**(9,579,923)**
Cash flows from financing activities			
Increase in designated funds (excluding expenditure on capital items)		195,827	4,698
Net movement in borrowings	20	(7,066,407)	(5,776,811)
Ordinary share issue		1,700,000	17,500,000
Net cash from financing activities		**(5,170,580)**	**11,727,887**
Net increase in cash and cash equivalents		**6,403,855**	**8,283,636**
Cash and cash equivalents at 1 January		13,268,092	4,984,456
Cash and cash equivalents at 31 December	10a & b	**19,671,947**	**13,268,092**

The accounting policies and notes set out on pages 55 to 101 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 26th March 2015.

b) 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.

c) 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 2014 is set out below in relation to the impairment of financial instruments and in the following notes:

Note (2d(iii)) - 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 (29) - 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. 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.

d) 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 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, 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.

e) 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.

The bank initially recognizes loans and advances, deposits and debt securities issued 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 Bank 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

'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.

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 the Bank Credit Department 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 179 days – 20%
   b) Doubtful assets with arrears period between 180 days and 364 days – 50%
   c) Loss assets with arrears period over 364 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.

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 terms 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.

f) 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.

g) 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.

h) 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.

Other fair value changes, other than impairment losses are recognized in other comprehensive income 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.

i) Intangible assets

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.

j) 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.

k) 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.

l) 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.

m) Property and equipment

i) Recognition and measurement
Property and equipment are stated at cost, less accumulated depreciation and/or accumulated impairment losses. Costs include expenditure that is 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% on a straight line basis
Furniture	12.5%
Motor vehicles	25%
Computer Software	20%
Computer Hardware	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.

n) 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.

o) 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.

p) 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.

q) Dividends

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

r) Accounting for leases

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. The Bank 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 Bank 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.

s) 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.

t) 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) 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.

u) 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 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.

v) 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.

w) 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.

x) 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.

i) New standards, amendments and interpretations effective and adopted during the year

New standard or amendments	Effective for annual periods beginning on or after
• Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (2011)	1 January 2014
• Investment Entities- Amendments to IFRS 10, IFRS 12, and IAS 27 (2012)	1 January 2014
• Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets (2013) Computer Software	1 January 2014
• Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	1 January 2014
• IFRIC 21 Levies (2013)	1 January 2014

Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

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

Amendments to IFRS 10, IFRS 12 and IAS 27: Investment entities (effective for annual periods beginning on or after 1 January 2014)

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.

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

Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014)

The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed.

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

Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014)

The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met.

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

IFRIC 21: Levies (effective for annual periods beginning on or after 1 January 2014).

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.

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

ii) New and amended standards and interpretations in issue but not yet effective for the year/period ended 31 December 2014.

New standard or amendments	Effective for annual periods beginning on or after
• Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	1 July 2014
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
• Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
• Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
• Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortization	1 January 2016
• Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
• IFRS 14 Regulatory Deferral Accounts	1 January 2016
• Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
• Disclosure Initiative (Amendments to IAS 1)	1 January 2016
• IFRS 15 Revenue from Contracts with Customers	1 January 2017
• IFRS 9 Financial Instruments (2014)	1 January 2018

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

Defined benefit plans – Employee contributions (Amendments to IAS 19)

The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:

- set out in the formal terms of the plan
- linked to service; and
- Independent of the number of years of service.

When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognize them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 with early adoption permitted.

The adoption of these changes will not affect the amounts and disclosures of the bank.

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

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

The amendments will be effective from annual periods commencing on or after 1 January 2016.

The adoption of these changes will not affect the amounts and disclosures of the bank.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes would not affect the amounts and disclosures of the bank.

Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.

The new requirements are effective from 1 January 2016, with earlier adoption permitted.

The amendment will not have any impact on the bank's financial statements as this is a financial institution with no bearer plants.

Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes will/will not affect the amounts and disclosures of the bank's property, plant and equipment and intangible assets.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

The adoption of these changes will not affect the amounts and disclosures of the bank's interests in other entities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of

IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorized body.

The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

The adoption of this standard is not expected to have an impact the financial statements of the bank given that it is not a first time adopter of IFRS.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

The adoption of these changes will not affect the amounts and disclosures of the bank.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

The adoption of these changes will/will not affect the amounts and disclosures of the bank.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognizing revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortized cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the bank.

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

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 day
- ***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
	2014	2013	
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.

	2014		2013	
Bank's rating	**Credit exposure %**	**Impairment allowance %**	**Credit exposure %**	**Impairment allowance %**
Performing	94.2	67.9	94.9	93.5
Watch	1.8	2.8	2.4	2.8
Substandard	1.8	4.1	1.0	1.1
Doubtful	1.2	22.1	0.4	0.6
Loss	1.0	3.1	1.4	2.0
	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:

	2014 Shs '000	2013 Shs '000
Deposit with Bank of Uganda	6,194,568	50,000
Placements with other banks	8,902,552	6,018,642
Bank balances - amounts due from other banks	13,477,380	9,116,384
Loans and advances to customers	78,451,602	60,191,453
Other assets	4,099,376	3,279,673
	111,125,478	**78,656,152**

The above table represents a worse case scenario of credit risk exposure to the Company at 31 December 2014 and 31 December 2013, 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, 70.92% of the total maximum exposure is derived from loans and advances to customers (Dec 2013: 76.5%), 12.08% represents amounts due from other banks (Dec 2013: 11.6%), 7.98% represents placements with other banks (Dec 2013: 7.7%).

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 2014 are restructured/renegotiated loans and advances amounting to Ushs 222.01 (2013: Ushs Nil).

The total loan impairment as a percentage of total loans was 2.06% as at 31 December 2014 (2013: 1.43%) in accordance with IFRS. While the total loan impairment ratio in accordance with the Central Bank prudential guidelines was 2.91% as at 31 December 2014 (2013: 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:	2014 Shs '000	2013 Shs '000
Neither past due nor impaired	74,232,173	57,869,444
Past due but not impaired	5,289,788	3,012,400
Impaired	577,672	189,259
Gross loans	80,099,633	61,071,103
Less: allowance for impairment (Note 13)	(1,648,031)	(879,650)
Net	**78,451,602**	**60,191,453**

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 FIA Regulations 2004.

	2014 Shs '000	2013 Shs '000
Neither past due nor impaired	**74,232,173**	**57,869,444**

Loans and advances assessed for impairment

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

	2014 Shs '000	2013 Shs '000
Individually assessed impaired loans and advances	577,672	189,259
Fair value of collateral held	**239,092**	**201,631**

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	
	2014	**2013**
At 31 Dec 2014	%	%
Agriculture	27.4	27.1
Manufacturing	6.0	0.1
Trade commerce	27.6	49.0
Transport communication	7.9	10.6
Building and construction	16.3	4.5
Personal loans, service industry and others	14.8	8.7
	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:

	2014	2013
	Ushs'000	Ushs'000
Net liquid assets	28,574,499	19,286,734
Customer deposits	78,744,585	45,414,605
% Ratio as at 31 December	**36.84%**	**42.42%**
Average for the year	34.35%	33.7%
Minimum for the year	27.72%	15.0%
Maximum for the year	43.42%	63.0%
Advance to deposit ratio:		
At 31 December	64.1%	55.8%
Limit for the period	82.5%	82.5%

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 2014	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	10,267,011	9,952,617	28,469,487	30,055,470	-	78,744,585
Loan guarantee fund	205,284	273,712	136,856	68,428	-	684,279
Finance Lease	15,441	32,327	158,009	268,270	-	474,048
Other liabilities	-	-	-	2,688,528	-	2,688,528
Borrowed funds	122,114	676,029	2,153,085	2,254,709	-	5,205,937
Employee benefits provisions	-	-	396,070	-	-	396,070
Designated funds	-	-	441,935	-	-	441,935
Capital grants	-	-	-	469,409	-	469,409
Total financial liabilities (contractual maturity dates)	**10,609,850**	**10,934,685**	**34,443,970**	**33,116,286**	**-**	**89,104,791**
Assets						
Cash and Bank Balances	13,477,380					13,477,380
Bank of Uganda balance	6,194,568	-	-	-	-	6,194,568
Placements with other banks	3,618,509	4,405,261	878,782	-	-	8,902,552

Loans and advances to customers	8,161,523	13,502,538	30,960,695	25,826,846	-	78,451,602
Other assets	-	-	4,099,376	-	-	4,099,376
Total financial assets (expected maturity dates)	**31,451,980**	**17,907,799**	**35,938,853**	**25,826,846**	**-**	**111,125,478**
On Balance sheet gap	**20,842,130**	**6,973,114**	**1,494,883**	**(7,289,440)**	**-**	**-**
Off Balance sheet items	**-**	**-**	**-**	**-**	**-**	**-**
Guarantees	22,500	82,940	11,000	-	-	116,440
Unutilised Overdrafts	-	-	667,290	-	-	667,290
Net off-balance sheet	**22,500**	**82,940**	**678,290**	**-**	**-**	**783,730**
Net Liquidity gap	**20,864,630**	**7,056,054**	**2,173,173**	**(7,289,440)**	**-**	**-**

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	27,435,696	47,939,676	-	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	-	-	3,279,672	-	-	3,279,672

Total financial assets (expected maturity dates)	**17,885,994**	**10,156,996**	**20,222,618**	**34,442,251**	**50,000**	**82,757,859**
Net Liquidity gap	**10,151,972**	**1,015,505**	**(7,213,078)**	**(724,727)**	**50,000**	**-**

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 2014, 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 2013: 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 2014. Included in the table are the Company's financial instruments, categorised by currency (all amounts expressed in thousands of Uganda Shillings).

At 31 December 2014	USD	Shs'000	Total (Shs'000)
Assets			
Cash and Bank Balances	309,748	13,167,632	13,477,380
Deposit with Bank of Uganda	-	6,194,568	6,194,568
Placements with other Banks	-	8,902,552	8,902,552
Loans and advances to customers	-	78,451,602	78,451,602
Other assets	-	14,784,590	14,784,590
Total assets	**309,748**	**121,500,944**	**121,810,692**
Liabilities			
Customer deposits	-	78,744,586	78,744,586
Loan guarantee fund	-	684,279	684,279
Other liabilities	-	2,688,528	2,688,528

Borrowed funds	-	5,205,937	5,205,937
Designated funds	-	441,935	441,935
Employee benefits provisions	-	396,070	396,070
Total liabilities	**-**	**88,161,335**	**88,161,335**
Net on-balance sheet position	**309,748**	**33,339,609**	**33,339,609**
At 31 December 2013			
Total assets	38,586	82,751,388	82,789,974
Total liabilities	-	(62,497,467)	(62,497,467)
Net on-balance sheet position	**38,586**	**20,253,921**	**20,292,507**

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.

At 31 Dec 2014	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	-	-	-	-	-	13,387,396	13,477,380
Deposit with Bank of Uganda	-	-	-	-	-	6,194,568	6,194,568
Placements with other Banks	3,618,509	4,405,261	878,780	-	-	-	8,902,552
Loans and advances to customers	8,161,523	13,502,538	30,960,695	25,826,846	-	-	78,451,602
Current income tax recoverable	-	-	-	-	-	212,379	212,379
Deferred income tax asset	-	-	-	-	-	1,160,425	1,160,425
Other assets	-	-	-	-	-	4,099,376	4,099,376
Property and equipment	-	-	-	-	-	7,343,008	7,343,008
Intangible assets	-	-	-	-	-	1,969,402	1,969,402
Total assets	**11,780,032**	**17,907,799**	**31,839,476**	**25,826,846**	**-**	**34,456,538**	**121,720,707**
Customer deposits	10,198,344	9,892,973	27,878,407	30,774,861	-	-	78,744,585
Loan guarantee fund	-	-	-	-	-	684,279	684,279
Other liabilities	-	-	-	-	-	2,688,528	2,688,528
Borrowed funds	137,112	711,358	2,315,001	2,042,466	-	-	5,205,937

Designated funds	-	-	-	-	-	441,935	441,935
Employee benefits provisions	-	-	-	-	-	396,070	396,070
Capital grants	-	-	-	-	-	469,409	469,409
Total liabilities	**10,335,456**	**10,604,331**	**30,193,408**	**32,817,327**	**-**	**4,680,221**	**88,630,743**
Interest re-pricing gap	**1,534,561**	**7,303,468**	**1,646,068**	**(6,960,481)**	**-**	**-**	**-**

Total assets	4,599,331	10,156,996	16,942,946	34,510,822	50,000	25,990,790	92,250,885
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**	**-**	**-**	

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 Business Risk.

The bank objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.
The board of directors has delegated the responsibility for operational risks to the risk and compliance department which is responsible for the development and implementation of controls to address the operational risk. The responsibility is supported by the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall b Bank standards for the management of operational risk in the following areas;

- The requirements to have appropriate segregation of duties, including independent authorization of transactions.
- The requirement for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is cost effective
- Development of contingency plans
- Requirements to report operational losses and proposed remedial actions

- Requirement for the assessment of operational risk faced, and the adequacy of controls and procedures to address the risk identified.

Compliance with the Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of t internal audit reviews are discussed and submitted to audit committee and the senior management of the Bank

Business risk is the risk of adverse impact resulting from a weak competitive position or from poor choice of strategy, markets, products, activities or structures. Major potential sources of business risk include: revenue volatility due to factors outside the Bank's control; inflexible cost structures; uncompetitive products or pricing; and structural inefficiencies. Finance Trust Bank is continuously reinforcing its commitment to the management of these risks. The Bank will continue to enhance its non-financial practices and methodologies where appropriate and will implement advanced non-financial risk management to enhance shareholder value and the quality of customer service.

The Bank has a non-financial risk framework, which is approved by the Board and is consistent with and part of the Risk Governance framework. Board Governance Standards have been established for all key areas of identified risk. These standards are high-level articulations of the Board's risk control requirements. Non-financial risk is subject to management oversight throughout the Bank. The prime responsibility for the management of non-financial risk and compliance with Board Standards rests with the businesses and functional units where the risks arise. Front line non-financial risk managers service and support business units in managing these risks. The Bank's Compliance manager plays an assurance role in this regard.

A consistent approach to the identification and assessment of key risks and controls is undertaken across all business units. Scenario analysis and self-assessment techniques are widely used by business management for risk identification and evaluation of control effectiveness and monitoring capability. Business management determine whether particular risks are effectively managed within business risk appetite or otherwise take remedial action.
The Bank Internal Audit function also provides an assurance role for non-financial risk control across the Bank to the Board and senior management.

(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	
	2014	2013		2014	2013
	Shs'000	Shs'000		Shs'000	Shs'000
Balance sheet assets (net of provisions)					
Cash balances	8,164,503	4,101,708	0%	-	-
Balances with Banks in Uganda	5,312,876	9,116,384	20%	1,062,575	1,823,326
Deposit with Bank of Uganda	6,194,568	50,000	0%	-	-
Placement with Orient Bank	-	1,026,466	20%	-	205,293
Placement with DTB	2,000,414	330,442	20%	400,083	66,088
Placement with DFCU	1,764,118	-	20%	352,824	-
Placement with Pride Microfinance	2,716,445	3,635,214	20%	543,289	727,043
Placement with Finca	493,151	-	20%	98,630	-
Placement with Ugafode	1,928,424	1,026,520	20%	385,684	205,304
Loans and advances to customers	78,451,602	60,191,453	100%	78,451,602	60,191,453
Other assets	4,099,376	3,311,787	100%	4,099,376	3,279,672
Current income tax recoverable	212,379	212,379	100%	212,379	212,379
Deferred income tax asset	1,160,425	1,497,146	0%	-	-
Property and equipment	7,343,008	5,770,326	100%	7,343,008	5,770,326
	121,810,692	**92,250,885**		**92,949,450**	**72,480,884**
Off Balance sheet assets					
Guarantees	116,440	-	100%	116,440	-
Unutilised overdrafts	667,290	-	50%	333,645	-
	783,730	**-**		**450,085**	**-**
Total on and off Balance sheet assets	**122,594,422**	**92,250,885**		**93,399,535**	**72,480,884**

a) Tier 1 Capital

	2014		2013
	Ushs '000		Ushs '000
Paid-up share capital	26,982,973		26,085,402
Share premium	802,429		-
Retained earnings	3,852,562		2,581,111
Intangible assets	(1,969,402)		(1,981,060)
Deferred income tax asset	(1,160,425)		(1,497,146)
Unrealized exchange gains	(3,794)		(4,422)
	28,504,343		**25,183,885**

b) Tier 2 Capital

	2014		2013
	Ushs '000		Ushs '000
General provisions	758,352		581,845
Subordinated debt	-		2,000,000
	758,352		**2,581,845**
Total Capital (Tier 1 + Tier 2 Capital)	**29,262,695**		**27,765,730**

FIA Capital Ratios	FIA Minimum Capital Requirements		Capital Adequacy as at 31 December	
	2014	2013	2014	2013
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Tier 1 capital	8%	8%	30.52%	34.75%
Tier 1 + Tier 2 capital	12%	12%	31.33%	38.31%

(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 2014 and 31 December 2013, the Company did not have financial assets and liabilities measured at fair value.

Financial instruments by category

At 31 December 2014	Loans and receivables Shs'000	Held to maturity Shs'000	Total Shs'000
Assets as per balance sheet			
Cash and balances with bank	13,477,380	-	13,477,380
Deposit with Bank of Uganda	6,194,568	-	6,194,568
Placements with other banks	-	8,902,552	8,902,552
Loans and advances to customers	78,451,602	-	78,451,602
Other assets	4,099,376	-	4,099,376
Total	**102,222,926**	**8,902,552**	**111,125,478**

At 31 Dec 2014	Loans and payables Shs '000	Other financial liabilities at amortised cost Shs '000	Total Shs '000
Liabilities as per SOFP			
Customer deposits	-	78,744,586	78,744,586
Loan guarantee fund	-	684,279	684,279
Borrowed funds	5,679,985	-	5,679,985
Gratuity	396,070	-	396,070
Other liabilities	2,688,528	-	2,688,528
Total	**8,764,583**	**79,428,865**	**88,193,448**

At 31 December 2013			
Assets as per SOFP			
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 December 2013			
Liabilities as per SOFP			
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**

4. Interest income	**2014 Shs '000**	**2013 Shs '000**
Loans and advances	22,817,924	19,148,516
Treasury bills	52,413	36,608
Fixed Deposits	783,270	535,993
	23,653,607	**19,721,117**

5. Interest expense	**2014 Shs '000**	**2013 Shs '000**
Customer deposits	3,732,805	1,652,096
Term loans	1,426,894	2,695,479
	5,159,699	**4,347,575**

6. Fees and Commission Income	**2014 Shs '000**	**2013 Shs '000**
Savings Income	2,742,434	1,920,938
Loans Income	10,239,546	6,523,383
Other Commissions Income	547,579	462,218
	13,529,559	**8,906,539**

7. Other Income	**2014 Shs '000**	**2013 Shs '000**
Rental income	5,820	18,939
Payment in lieu of notice	7,251	-
Unrealised Exchange gain	3,794	4,422
Realised Exchange gain	982	181

Recovery of written off loans	293,367	164,069
Gain on sale of property and equipment	17,062	2,215
Movement in Leave Provision	63,824	72,888
Others	242,635	244,315
	634,735	**507,029**

8a. Staff costs & other benefits	**2014 Shs '000**	**2013 Shs '000**
Basic pay	11,140,727	8,869,280
Bonus and incentives	837,938	923,598
Fuel allowance	264,110	241,297
Acting allowance	115,490	99,922
Leave allowance	63,419	72,192
Pension and gratuity	403,860	261,921
Housing & security allowances	107,562	91,559
Payment in lieu of notice	31,835	7,690
NSSF employer's contribution	1,293,724	1,259,987
Funeral expenses	5,110	7,140
Staff welfare, teas and lunches	114,698	171,390
Staff settlement expenses	72,622	103,083
Staff uniforms	-	35,096
Casual labourers	16,748	14,038
Recruitment expenses	44,700	18,423
Medical expenses	442,623	435,918
Airtime expenses	145,789	134,320
Entertainment general	9,599	5,681
Cashier's allowance	38,740	32,781
	15,149,294	**12,785,316**

8b. Operating expenses	**2014 Shs '000**	**2013 Shs '000**
The following items are included within operating expenses:		
Computer software expenditure	682,362	546,884
Auditors' remuneration	89,235	89,861
Other professional costs	7,493	13,389
Legal fees	180,640	145,051
Direct loan costs	331,618	242,492
Non trading foreign exchange loss	14,105	2,535

Marketing and publicity expenses	1,077,395	524,850
Board expenses	595,435	375,406
Staff training	352,405	257,352
Other operating expenses (Note 8c)	9,029,629	7,235,319
	12,360,317	**9,433,139**

8c. Other operating expenses	**2013 Shs '000**	**2012 Shs '000**
Transport and travel	543,265	421,404
Motor vehicle expenses	425,065	390,182
Printing and stationery	809,658	507,097
Data rental services	534,254	478,877
Rent expenses	2,047,433	1,724,204
Utilities	793,207	667,626
Insurance expenses	629,181	351,508
Security expenses	1,458,550	1,186,304
Loss on disposal	1,680	-
Administrative expenses	1,590,143	1,380,552
Write off of other debtors	164,745	127,565
Others	32,448	-
	9,029,629	**7,235,319**

9. Income tax expense	**2014 Shs '000**	**2013 Shs '000**
Current income tax	-	-
Deferred income tax	336,720	(1,199,318)
	336,720	**(1,199,318)**

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:

	2014 Shs '000	**2013 Shs '000**
Profit before income tax	2,278,242	543,117
Tax calculated at the statutory income tax rate of 30% (2012: 30%)	**683,473**	**162,935**
Tax effect of:		
Income not subject to tax	(724,993)	(1,418,804)
Expenses not deductable for tax	378,240	56,551
Income tax (charge)/Credit	**336,720**	**(1,199,318)**

10. Cash and bank balances	2014 Shs '000	2013 Shs '000
a)		
Cash in hand	8,164,503	4,101,708
Bank balances	5,312,876	9,116,384
	13,477,380	**13,218,092**
b)		
Deposit with Bank of Uganda	**6,194,568**	**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.

11. Placements with other banks	2014 Shs '000	2013 Shs '000
Maturing within 91 days	4,414,534	1,861,510
Maturing after 91 days	4,488,018	4,157,132
	8,902,552	**6,018,642**

The weighted average effective interest rate on placement with other banks was 11.4% (2013: 12.8%)

12. Loans and advances to customers	2014 Shs '000	2013 Shs '000
Agriculture	21,809,315	16,571,493
Manufacturing	4,770,965	56,132
Trade and commerce	22,034,243	29,941,887
Transport and Communication	6,331,018	6,484,604
Building and Construction	12,964,730	2,738,814
Personal loans, service industry and others	11,540,152	5,278,173
Overdraft facilities	649,210	-
Gross loans and advances	**80,099,633**	**61,071,103**
Less: Provision for impairment of loans and advances		
- Individually assessed	(723,602)	(126,277)
- Collectively assessed	(924,429)	(753,373)
	78,451,602	**60,191,453**

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 2013	Individually Assessed Shs '000	Collectively Assessed Shs '000	Total Shs '000
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**
Year ended 31 December 2014			
At 1 January	126,277	753,373	879,650
Charge for the year	634,271	1,086,858	1,721,129
Write offs against provisions	(36,945)	(915,802)	(952,747)
At 31 December	**723,602**	**924,429**	**1,648,031**

13. Other assets	2014 Shs '000	2013 Shs '000
Prepayments	2,103,969	1,997,848
Staff debtors	182,855	132,232
Sundry receivables	1,023,838	796,118
Fees receivable	384,999	150,592
Inventory	403,715	202,882
	4,099,376	**3,279,672**

The other assets are non-interest bearing and normally settled within 30-90 days. The Bank does not hold collateral in respect to these receivables.

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 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 2013	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**
Year ended 31 December 2014							
COST							
At 1 January 2014	**188,240**	**1,709,604**	**1,121,613**	**2,601,127**	**3,925,472**	**2,603,957**	**12,150,013**
Additions	-	159,512	590,933	276,109	1,205,505	843,644	3,075,703
Disposals	-	-	(96,550)	(32,236)	-	-	(128,786)
At 31 December 2014	**188,240**	**1,869,116**	**1,615,996**	**2,845,000**	**5,130,977**	**3,447,601**	**15,096,930**
Accumulated Depreciation							
At 1 January 2014	**27,327**	**1,001,338**	**512,558**	**1,808,758**	**2,137,717**	**891,989**	**6,379,687**
Disposals	-	-	(75,788)	(30,690)	-	-	(106,477)
Charge for the year	2,532	98,791	290,854	312,692	480,720	295,125	1,480,712
At 31 December 2014	**29,859**	**1,100,129**	**727,624**	**2,090,760**	**2,618,436**	**1,187,114**	**7,753,922**
NET BOOK VALUE							
At 31 December 2014	**158,381**	**768,987**	**888,372**	**754,240**	**2,512,541**	**2,260,487**	**7,343,008**
At 31 December 2013	160,913	708,266	609,055	792,369	1,787,755	1,711,968	5,770,326

15. Intangible assets (computer software)	2014 Shs '000	2013 Shs '000
COST		
At 1 January	3,967,476	1,946,354
Additions	398,082	2,021,122
At 31 December	**4,365,558**	**3,967,476**
Accumulated Depreciation		
At 1 January	1,986,416	1,441,263
Charge for the year	409,740	545,153
At 31 December	**2,396,156**	**1,986,416**
At 31 December	**1,969,402**	**1,981,060**

16. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2013: 30%). The movement on the deferred income tax account is as follows:

	2013 Shs '000	2012 Shs '000
At 1 January	(1,497,145)	(297,828)
Income statement charge/credit	336,720	(1,199,317)
At 31 December	**(1,160,425)**	**(1,497,145)**

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

At 31 December 2014	At 1 January Shs '000	Prior year adjustment Shs '000	At 31 December Shs '000
Deferred income tax liabilities			
Property and equipment	**1,318,337**	**3,351**	**1,481,379**
Deferred income tax assets			
Provisions for impairment	(226,012)	(51,317)	(277,329)
Provision for gratuity	(66,760)	(34,406)	(101,166)
Capital grants	(154,948)	14,125	(140,823)
Leave provision	(19,827)	2,171	(17,656)
Other deductable temporary differences	(33,076)	(13,657)	(46,733)
Accumulated tax losses carried forward	(2,314,860)	256,763	(2,058,098)
	(2,815,483)	**177,030**	**(2,641,805)**
Net deferred income tax asset	**(1,497,146)**	**336,720**	**(1,160,426)**

17. Deferred income tax (continued)

	At 1 January Shs '000	Prior year adjustment Shs'000	Charged/ (credited) to P/L Shs '000	At 31 December Shs '000
At 31 December 2013				
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)/ liability	**(297,828)**	**(107,482)**	**(1,091,836)**	**(1,497,146)**

18(a). Customer deposits

	2014 Shs '000	2013 Shs '000
Demand deposits	6,773,970	34,328
Savings accounts	35,965,839	28,393,992
Fixed deposit accounts	36,004,776	16,986,285
	78,744,585	**45,414,605**

18(b). Loan guarantee fund

	2014 Shs '000	2013 Shs '000
Individuals	30,986	81,811
Groups	653,293	600,096
	684,279	**681,907**

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. Other liabilities

	2014 Shs '000	2013 Shs '000
Un-cleared cheques	-	109,077
Sundry creditors	893,073	850,320
Insurance payable	88,820	67,557
NSSF contributions payable	172,241	134,615
PAYE payable	341,444	226,779
Withholding tax payable	58,987	107,692
Stamp duty	2,901	4,264
Excise Duty payable	24,793	-
Other tax payables	6,616	-
Deferred loan arrangement fees	1,099,653	1,764,047
	2,688,528	**3,264,351**

Other liabilities and accounts payable are non-interest bearing and are normally settled between 30-90 days. The Bank gives no collateral in respect to these payables. Other liabilities include a portion of unearned income from fees and commission charged on loans and advances at disbursement and the amortized for the period of the credit facility.

20. Borrowed funds

	2014 Shs '000	Rate (%)	2013 Shs '000	Rate (%)
Triodos International Fund Management	-	-	-	-
Triodos International Fund Management	-	-	2,000,000	18.8
DFCU Bank Limited	-	-	-	-
Stromme	1,800,000	14.0	750,000	15.5
Stromme	-	-	3,000,000	14.0
ResponsAbility	-	-	3,915,143	16.0
Bank of Africa	-	-	-	-
Uganda Energy Credit Capitalisation Company	131,381	8.15	-	-
NMI Frontier Funds KS	-	-	-	-
Agribusiness Initiative	727,273	14.0	1,454,545	15.0
Micro Finance Support Center	2,547,283	13.0	1,482,185	13.0
Centenary Bank	-		-	
	5,205,937		**12,601,873**	

The table below shows the movements of borrowed funds:

	2014 Shs '000	2013 Shs '000
At 1 January	12,601,873	13,699,527
Add: Receipts	2,080,640	6,903,000
Less: Payments made	(9,476,576)	(8,000,654)
At 31 December	**5,205,937**	**12,601,873**

(i) The company secured a facility of Shs 3.0bn from Stromme Microfinance East Africa on 12th June 2013 for a period of 3 years payable in quarterly installments after a grace period of 6 months. The facility is secured by a floating charge on 150% of the Company's Grade A loan portfolio and it's charged interest at 14%.

(ii) The Company received an offer for a refinance facility of Usd 250,000 from Uganda Energy Credit Capitalization Company Limited (UECCC) for on-lending to customers for the purpose of acquisition and installation of Solar Systems. The facility is to be disbursed in tranches with the first tranche of Usd 50,000 disbursed on July 15th 2014. Subsequent replenishments of Usd 50,000 or higher are subject to full accountability for any preceding disbursements. The facility was granted for a period of Ten (10) years including a grace period of Twelve (12) months, interest is charged at 8.15% pa fixed throughout the entire refinance period and repayment is by quarterly installments.

(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 Micro Finance Support Center in amounts of Shs 2.0bn each.

The first one was acquired on 30th August 2012 for a period of 3 years, charged interest at a fixed rate of 13% and is payable on a monthly basis after a grace period of 6 months. It is secured with a floating charge on loan portfolio, fixed and floating assets of the Company.

The second facility was approved on 22nd July 2014 for a period of 3 years, charges interest at a rate of 13%, is payable on a monthly basis and is secured with a floating charge on loan portfolio, fixed and floating assets of the Company.

All the above loans are accounted for at amortized cost.

21. Designated funds

	ABI Shs'000	UNCDF Shs'000	RCF Shs'000	2014 Total Shs'000	2013 Total Shs'000
At 1 January	**88,987**	**157,121**	**-**	**246,108**	**512,045**
Receipts	184,100	633,449	72,425	889,974	573,181
Utilized	(121,382)	(464,735)	(63,050)	(649,167)	(577,879)
Transfer to capital grants	(15,327)	(20,278)	(9,375)	(44,980)	(261,238)
At 31 December	**136,378**	**305,557**	**-**	**441,935**	**246,108**

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 184,100,000 from Agricultural Business Initiative Trust (ABI Trust) to facilitate scaling up of Agricultural products uptake, Shs 633,449,252 from United Nations Capital Development Fund (UNCDF) under the Youth Start Program and expenditure refunds totaling to Shs 72,425,000 from Rural Challenge Fund to facilitate rural outreach.

The Rural Challenge Fund grant was offered up to a maximum of Shs 468,620,000 in respect to the project "BRANCHLESS BANKING IN ORDER TO ATTAIN FINANCIAL DEEPENING IN KABAROLE DISTRICT" and it's disbursed on a quarterly basis against acceptable accountabilities for expenditure on pre-approved activities.

During the year, the Bank entered two grant funding arrangements in form of technical assistance from INCOFIN INVESTMENT MANAGEMENT. One of the arrangements provides a budget up to EUR 250,000 to support the Bank in the areas of human resources, risk management and adoption of a field based delivery channel technology to implement the Bank's ambitious savings mobilization plan in rural areas. The other provides a budget up to EUR 239,134 to support the Bank in the areas of risk management, capacity development, process mapping and product development. The grant funds are made available to the Bank upon submission of completed drawdown requests.

22. Related party transactions

During the year, the Company made payments to its directors in respect of retainer fees and sitting allowances. The total amount paid out during the year is presented here under.

	2014 Shs '000	2013 Shs '000
Fees for services as director	445,982	270,133
	445,982	**270,133**
Due from related parties	-	32,115
	-	**32,115**

23. Employee benefits provision

	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
Provisions released	-	(72,888)	(72,888)
Reduction due to payments/utilization	(197,287)	(8,669)	(205,956)
At 31 December 2013	**222,533**	**66,090**	**288,623**

	Gratuity Shs '000	Leave Shs '000	Total Shs '000
At 31 December 2014			
At 1 January 2014	**222,533**	**66,090**	**288,623**
Charge for the year	403,860	63,419	467,279
Provision released due to utilization	-	(63,824)	(63,824)
Reduction due to payments	(289,172)	(6,836)	(296,008)
At 31 December 2014	**337,221**	**58,849**	**396,070**

24. 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	RCF Shs '000	Total Shs '000
Year ended 31 December 2014										
At 1 January	**144,484**	**9,068**	**13,379**	**19,652**	**7,535**	**10,019**	**112,825**	**199,531**	-	**516,493**
From designated funds	-	-	-	-	-	-	20,279	15,327	9,375	44,981
Profit and loss credit	(18,413)	(3,022)	(4,454)	(3,722)	(1,507)	(1,303)	(29,059)	(30,360)	(225)	(92,065)
At 31 December	**126,071**	**6,046**	**8,925**	**15,930**	**6,028**	**8,716**	**104,045**	**184,498**	**9,150**	**469,409**
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**

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.
- The ABI grant worth shs 407,400,000 was awarded to facilitate scaling up of the Agricultural products uptake.
- The Rural Challenge Fund (RCF) grant of Shs 468,620,000 was awarded by ABI to facilitate implementation of a project titled "Branchless Banking in Order to Attain Financial Deepening in Kabarole District".

25. Share capital	2014 Shs '000	2013 Shs '000
Authorized Share capital		
30,000 million ordinary shares (2013: 30,000 million) of Shs 1,000 each	**30,000,000**	**30,000,000**
Issued and fully paid		
At 1 January 2014 and 1 January 2013 respectively	**26,085,402**	**8,585,402**
Ordinary share subscription	**897,571**	**9,328,358**
Bonus shares issued during the year from share premium	**-**	**8,171,642**
Share Capital	**26,982,973**	**26,085,402**

	2014 Shs '000	2013 Shs '000
Share premium	**802,429**	**-**
Total as at 31 December 2014	**27,785,402**	**26,085,402**

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 26.98bn. During the year 2014, the company received Shs 1.7bn in respect of 897,571 shares at a premium of Shs 1,894 from UWT (one of the shareholders). This was part of the 1,006,098 shares issued but not paid up in 2013 and it increased the ordinary share capital account from Shs 26.08bn to Shs 26.98bn and share premium account to UShs 802.429 million.

26. Regulatory credit risk reserve	2014 Shs '000	2013 Shs '000
At 1 January	397,866	580,452
Transfer to/from retained earnings	670,071	(182,586)
At 31 December	**1,067,937**	**397,866**

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.

27. Proposed dividend

No interim dividend was paid during the year 2014 and the directors do not recommend a dividend in respect of the year ended 31 December 2014 (2013: nil).

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

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

	2014 Shs '000	2013 Shs '000
Cash and Bank Balances (Note 10a)	13,477,380	13,218,092
Placements with other banks (Note 10b)	6,194,568	50,000
Bank overdraft	-	-
	19,671,948	**13,268,092**

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, cash deposit held with the Bank of Uganda, bank overdrafts and excludes placements with other Banks as these are not available for use in the Company's day to day activities.

29. Contingent liabilities

a) **Legal Proceedings**
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 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 status.

b) **Loan Commitments, Guarantees and other financial liabilities**
At 31 December 2014, the Bank had contractual amounts in off balance sheet financial instruments that commit it to extend credit to customers (Un used over drafts) and guarantees as follows:

	2014
Unused overdrafts	667,290
Guarantees	116,640
Total	**783,930**

30. 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:

	2014 Shs '000	2013 Shs '000
Not later than 1 year	1,600,173	1,752,031
Later than 1 year but less than 5 years	4,304,746	6,523,453
Later than five years	3,039,597	3,212,123
	8,944,516	**11,487,607**

Finance Lease

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

	2014 Shs '000	2013 Shs '000
At 1 January	172,546	76,457
New contracts	379,343	187,069
Payment during the year	(77,841)	(90,981)
	474,048	**172,546**

	2014 Shs '000	2013 Shs '000
Not later than 1 year	268,687	93,055
Later than 1 year but less than 5 years	287,468	158,665
Later than five years	-	-
	556,155	**251,720**
Present value of future minimum lease payments	**474,048**	**172,546**

The Girl's Choice Savings Account

The affordable way for girls to grow savings and improve their lives

For girls in and out of school ages 10 - 19 years old.

Benefits

- Safe and secure place to keep money
- Affordable and flexible terms
- No fees
- Realize your dreams by building useful lump sums over time
- Learn to manage money, budget and save through financial education
- Conveniently accessible through branch network

Requirements (Girls)

- Recommendation letter from LC1, school head, church leader
- 3 pass port photos
- Photocopy of ID
- Mentor required

Mentor:

- Recommendation letter from LC1, school head, church leader
- 3 passport photos
- Photocopy of ID, voters card, driving permit, passport, employee ID

Head Office

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FINANCE trust BANK

Putting Women First

Notes

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