Annual Report 2012

FINANCE trust

Let's Grow

FINANCE TRUST BRANCHES COUNTRYWIDE

Visit any of our 30 branches countrywide

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Upcountry Branches

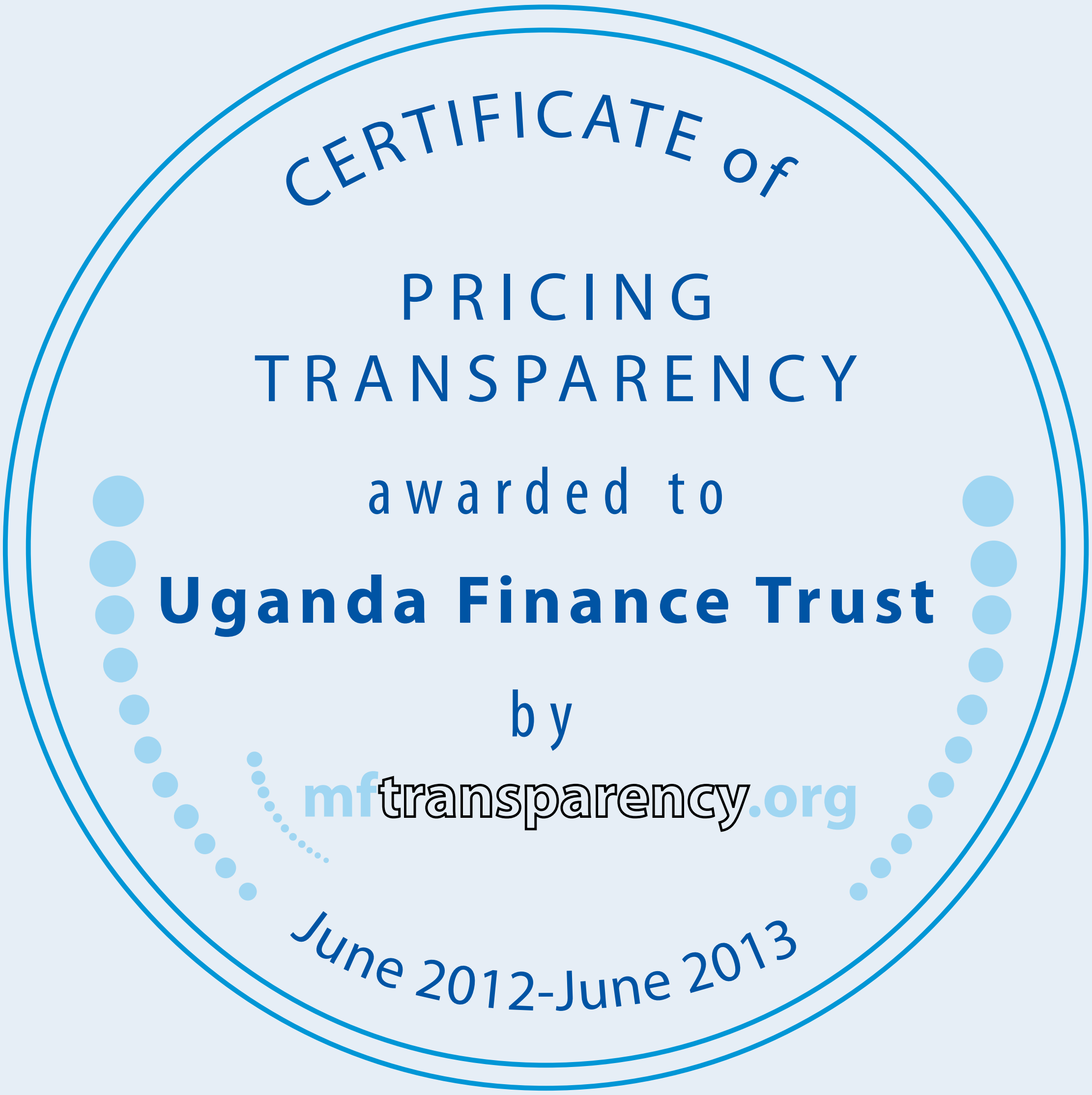
• Bugiri • Busia • Entebbe • Iganga • Ishaka • Jinja • Kalangala • Arua • Kamuli • Kayunga • Kumi • Kamwenge • Kabarole • Lugazi • Masaka • Mbale • Mbarara • Mukono • Ntungamo • Pallisa • Soroti • Tororo

Annual Report
2012

Pricing Transparency Award

Certificate of Pricing Transparency Award

Finance Trust consistently updates and submits data to the Microfinance Transparency Centre for peer use in the Mix Market.



NSSF Best Employer Bakuli Branch Award 2012

We stand out in the banking sector because of our commitment to our staff through timely remittance of their savings.

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Background

Uganda Finance Trust Limited (MDI) was incorporated on 24th March 2004 and licensed on 12th October 2005. It was formed as a share based for-profit company, to assume the financial services business of Uganda Women's Finance Trust Limited (UWFT). UWFT was first registered as Uganda Women's Finance and Credit Limited (UWFCT) a-not-for-profit organization on 2nd August 1984 (and later as a Non-Governmental Organization) as a reaction to the reluctance of banks to provide financial services to low-income people, especially women. Then on 16th July 1997 it changed name to Uganda Women's Finance Trust Limited.

Finance Trust takes pride in the fact that it is the oldest indigenous micro finance institution in Uganda. Finance Trust is repositioning itself to be the preferred and affordable provider of financial services in the market through providing easy, friendly, convenient and responsive financial services to low and middle income people in Uganda efficiently, profitably and responsibly.

Incorporated as a company limited by shares, Finance Trust offers a range of credit and savings products to low and medium income people through a fully computerized network of 30 branches spread nationwide. Currently Finance Trust serves over 182,455 savers and 22,529 borrowers both in individual and group categories.

The Way we Work

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

As a Business

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

We do business with integrity and place great value on honesty and clarity. We respect the laws of our country and adhere to good corporate governance practices; we maintain high standards in accounting and reporting; we deliver long-term, sustained shareholder value by protecting and making the most effective use of UFT assets. Friendliness defines our relationships with our customers and our suppliers. We believe in equality of 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 UFT a great place in which 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 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 as well as clients involved at all stages of the agriculture value chain.
- Trading including groceries, wholesaling and retailing assorted merchandises, motor spare parts and second-hand clothes, timber and hardware.
- Services including restaurants and bars, beauty shops, schools and medical centers (clinics and drug shops).
- Manufacturing including hardware, bakeries, carpentry, tailoring etc.
- Personal development in form of construction and purchase of household assets.

Our Services

Deposit products

- Savings Accounts
- Fixed Deposit
- No fee Accounts
- Youth start savings product
- Teen classic
- Youth progress
- Girls choice savings account

Loan products

- Salary Loans
- Individual business loans for small and medium enterprises
- Group loans (15-30 members) for micro-enterprise development
- Personal Development loans
- School fees loans
- Agricultural loans

Other financial services

Money Transfer services through Western Union and mobile money, Death and Disability Insurance and Branchless Banking.

Micro-insurance

We extend loan insurance services to our borrowing customers. This service is indirectly provided through a licensed insurer, AIG and now Lion Assurance for Agriculture loans.

We provide affordable healthcare insurance to customers on the Mama's Safe accounts.

E-Banking

We provide our customers with the following money transfer services:

- RTGS and EFT
- Western Union
- Mobile money services through MTN, Msente, Airtel money, and Warid Pesa.

The Youth Start Project

In August last year, Uganda Finance Trust Ltd, with support from the United Nations Capital Development Fund embarked on the Youth Start Project whose major objectives are the following:

- Provide financial education to both in-school and out-of school teenagers and youth of age ranges: 12 to 24 years.
- Provide non-financial services to both in-school and out-of school teenagers and youth of age ranges: 12 to 24 years.
- Provide affordable financial services to the youth both in-school and out-of school teenagers of age ranges: 12 to 24 years. Currently, these youth products do not attract withdrawal or deposit fees as well as the monthly ledger fees.

However, they attract interest that encourages them to save. Currently over 8,000 youth have been given both the Financial and non-financial services.

Ownership and capital structure

Finance Trust has a varied ownership structure comprising of international and domestic shareholding. The international shareholding represents 49.28% while domestic shareholding accounts for 50.72%.

Corporate Governance

The Board of Directors

The Board of Directors is composed of highly committed persons with a good mix of 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 4 committees and the full board namely:

- Executive Committee
- Audit Committee
- Assets and liabilities Committee
- Board Risk Committee

The Executive Committee (EXCO)

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

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

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 two non-executive directors appointed by the Board. The Board ensures that every member appointed to the BRC is independent of current management and is free from any relationship that would interfere with his / her exercise of independent judgment. The committee meets on a quarterly basis and is charged with the 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. 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.
- Defining, monitoring and ascertaining the level of appetite for the institution in all its existing and prospective products and services.

The Audit Committee

This is composed of a Chairperson (Independent non-executive director) and at least 2 non-executive Directors appointed by the Annual General Meeting. Ultimately, Finance Trust aims to ensure that at least one of the committee members has a sound financial/accounting background. The Audit committee meets quarterly and is charged with the responsibility of;

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

The Assets and Liabilities Committee (ALCO)

This is composed of a Chairperson and at least 2 Board members appointed by the Board. The Head, Finance and Administration is ordinarily invited to attend the meetings of this committee. The Assets and Liabilities committee meets quarterly and has the following responsibilities;

- Protecting the shareholders and depositors.
- Maintaining sufficient liquidity to cover cash flow requirements and invest idle money.
- 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.

Strategic Focus 2012-2016

The UFT's strategy for the next five years will focus on three themes to create and deliver value to customers and stakeholders. These themes are expected to focus our staff efforts in the next five years towards achieving our vision.

Operational Excellence

UFT will focus on streamlining business processes and using robust ICT systems to support the provision of fast, reliable and convenient financial services. With a wide range of delivery channels in a secure and standardized environment to continuously provide innovative financial services to our target market, the standardization of processes across the branches through the implementation of standard operating procedures and automation of operations. It also entails maintaining a cost sensitive-waste reduction culture, compliance to regulatory guidance and prudent risk management to reduce overall cost of business.

The goal of this strategy is to have customized products and services timely delivered to our customers in a convenient and controlled environment.

Excellent Customer Experience

Speedy access to affordable financial services offered in a secure convenient environment by friendly, knowledgeable, empathetic and professional staff underpins the success of our organization. This leg of strategy focuses on enhancing our customer experience through good customer services, compelling value added services and a strong "customer is the king" culture.

Our goal is to have satisfied customers who are enjoying a wide range of affordable and suitable products and services delivered timely by highly skilled and motivated staff.

Growing Uganda Finance Trust

Under this theme, our focus is on transforming UFT into a sustainable microfinance bank dedicated to improving the livelihood of its target market. It entails the acquisition of a commercial bank licence to enable us meet the need for comprehensive banking services by our customers who are not only becoming more demanding, but also more sophisticated. It also entails building our capital base by attracting equity investment, building our staff competences, growing our revenue streams - loan portfolio, deposits and other revenue streams, and sustainably growing our profitability and market share.

Our goal is to have a highly profitable but affordable micro finance bank that is driven by a professional and productive work force.

Chairperson's Statement

Finance Trust registered solid growth and positive results despite the competition.

On behalf of the Board of Directors, It is with pleasure that I present to you the Annual Report and Financial Statements for Finance Trust for the year ended 31st December 2012.

Finance Trust has achieved tremendous growth over the years and I want to thank Management and staff for a job well done. Let me also take this opportunity to thank all our customers, shareholders and all stakeholders for supporting the Board in the achievement of the Institutional objectives.

Macro-Economic Environment

The year 2012 saw an increase in competition within the financial sector as a result of licensing of two new banks (NIC Bank & Bank of India) and one Microfinance deposit taking institution (UGAFODE). The financial sector remained resilient to the harsh economic trends resulting from the effects of inflation with most banks maintaining a stable performance in advances to customers and customer deposits. Finance Trust registered solid growth and positive results despite the competition.

Financial Performance

Finance Trust achieved a 22.3% growth in total assets arising from 25.6% growth in customer deposits and 16.1% growth in borrowed funds. This growth was mainly a result of aggressive mobilization efforts, increased outreach and acquisition of new credit facilities from the Microfinance Support Centre, Agri-Business Initiative Trust, Centenary Bank and Stromme Micro finance East Africa. Interest expense grew by 40.9% due to increase in the market rates that affected our cost of borrowing and rates offered on term deposits.

Loans to Customers grew by 17.5% as a result of aggressive mobilization efforts by staff, better customer service and improved turnaround time. As a result, Interest income increased by 16.1% due to the growth in the loan portfolio.

Transformation into Tier 1 Commercial Bank

The Company is in a transformation process. We have identified three new investors Progression Eastern Africa Microfinance Equity Fund, RIF North 1 and I&PAE through our transaction adviser, Deloitte & Touche, to bring in additional capital together with commintments from our current shareholders. We expect that at the end of the process we shall have mobilized additional capital worth UShs 19.5 billion; this will be raised from both new investors and the current shareholders.

22.3%
Finance Trust growth in total assets

25.6%
growth in customer deposits

17.5%
growth in customer loans

16.1%
growth in interest income

System Change over project

During the year 2012, Finance Trust initiated the process of changing its core banking system. UFT successfully changed its core banking system from Orbit to BR.Net. The new system is noted to be robust, highly scalable and flexible to strategically support the institution towards achieving its future objectives. It's one of the systems that can easily be interfaced with many delivery channels which enable us reach out to the targeted customers.

Branding

We plan to improve on the existing brand identity to give it more vibrancy as we enter into the commercial banking environment. What we are yet to see upon transformation will not be very different from what you know but just an additional color that gives it a fresh look and more appealing to a bigger market including the youth.

Branch Network

The company has 30 well networked branches all over the country. We plan to increase our footprint by opening 2 new branches every year. However, no new branches were opened in 2012.

Staffing

During 2012, the total staff compliment grew by 10.42% from 384 staff in 2011 to 424 staff. Of these, 55% are women. A number of initiatives including training and a newsletter among others have been in place to improve employee relationship management.

New projects

During the year 2012, we initiated a relationship with Agri-business Initiative Trust to support the company's expansion in the Agricultural sector financing. ABi Trust agreed to guarantee 50% of all agricultural related lending activities. In addition, the company obtained a grant of Ushs 145m from ABi-Trust for review of the agricultural loan product, training and promotion of the Agricultural loan activities.

Way forward

We view 2013 with a deeper optimism in light of the projected continuation of the global economic recovery. Uganda is particularly looking forward to the actualization of the East African Common Market and the prospects of oil in Western Uganda and increased trade in the region.

In light of the above and in view of the company's prospects, we anticipate growth in our loan book, deposit base, profitability and improve on productivity in the new Commercial Banking environment. In 2013, we shall focus on increasing outreach to the market by opening two new branches one in Kapchorwa and another in Nansana in the 1st half of the year and an additional branch in Lira in the second half of the year 2013.

In addition, we shall aim at excelling in innovation by expanding our product base through introduction of current accounts, bank guarantees, SME loans, letters of credit and foreign exchange accounts. We shall accelerate the improvement in service delivery by broadening our service delivery platform by taking on mobile banking technology.

The Board and Management are committed to building a strong, profitable and customer responsive institution delivering on its mission and vision. We plan to do this by building a high performing loan portfolio, delivering innovative responsive customer driven products and services, building effective risk management and compliance, driving progressive and dynamic growth, providing excellent customer service and striving to be the employer of choice.

Hon. Eng. Irene Muloni
Chairperson Board of Directors

Trust Agro-Financing

Agro - Production Loan

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

Benefits

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

FINANCE trust

Let's Grow

CEO's Statement

Our performance is attributed to a motivated and highly committed workforce across the branch network that continues to work tirelessly to achieve the set goals. A focus on innovative youth products and customer satisfaction also ensured that we remained relevant to our customers

Our esteemed shareholders, it is with much delight that I present the performance of our institution for the financial year ending 31st December 2012. As you may well know, 2012 turned out to be another tough year for the Ugandan financial sector which grappled so hard with inflation and low savings from customers. Inspite of this, am proud to say that Finance Trust emerged more stable, vibrant and poised to perform even better in the financial year 2013.

At the beginning of the year 2012, the Board and Management of Finance Trust deliberated and agreed on certain key priorities for the institution. These priorities served as the platform for driving the institutions overall performance for the year and the years to follow. They are: Operational excellence, excellent customer experience and Growth, which will focus on transforming UFT into a sustainable microfinance bank dedicated to improving the livelihood of our target market, streamlining business processes and using robust ICT systems to support the provision of fast, reliable and convenient financial services, by offering speedy access to affordable financial services in a secure convenient environment by friendly, knowledgeable, and professional staff.

On performance, during the financial year of 2012, Finance Trust registered improved gross income by UShs 5.2bn from UShs 21.5bn in 2011 to UShs 26.7bn in 2012, representing a 24.2% growth. The institution grew its balance sheet from UShs 54bn in 2011 to 66bn in 2012 representing a 22.3% growth. During the year, our growth was mainly in the areas of loan portfolio and customer savings where we experienced growth of 17.5% and 25.5% respectively. Profitability remained stable at UShs 1.5bn. Our deposit base rose by 6.6bn from UShs 25.9bn in 2011 to UShs 32.5bn in 2012 and this growth was driven by our increased product offering and mobilisation across the wide distribution network. The closing position of our gross loans was UShs 49.9bn (2011: UShs 41.6bn) representing a growth of 20% during the period. This provides a solid foundation for the institutions future growth plan. Overall we are determined to enhance shareholder value by unlocking existing potentials in the institution, leveraging on information technology, resource base and vantage positioning in Uganda.

The above performance is attributed to a motivated and highly committed workforce across the branch network that continues to work tirelessly to achieve the set goals. A focus on innovative youth products and customer satisfaction also ensured that we remained relevant to our customers.

I am happy to report that during the year, the institution was granted Ushs 175,000,000 to develop agriculture products by Agri Business Initiative Trust. This grant helped the institution develop and market four products to serve the Agro-Value chain. We believe that with the largest percentage of our target market engaged in Agriculture, these products will deliver value to our customers and form a springboard for the institution's growth in 2013. The institution also brought on board some value adding services in order to make our branches one stop centers; these included Warid Pesa, Airtel Money and MSente as well as collection of DSTV subscriptions.

In continuation of the spirit of giving back to the society, Finance Trust was involved in several milestone community impact projects in the year. The Bishop Willigers Secondary school- Busembatia district desk donation was aimed at promoting education in a sub county which had no secondary school. In furtherance, the institution contributed to the Arua market vendors by donating to them tarpaulins which would be used to shield their merchandise against destruction by rain and sun.

Road safety was another area where Finance Trust sought to aid the communities. In November 2012, the institution together with Mbarara Town Council restored color to three main Zebra crossings in Mbarara. This we hope will reduce road carnage on road.

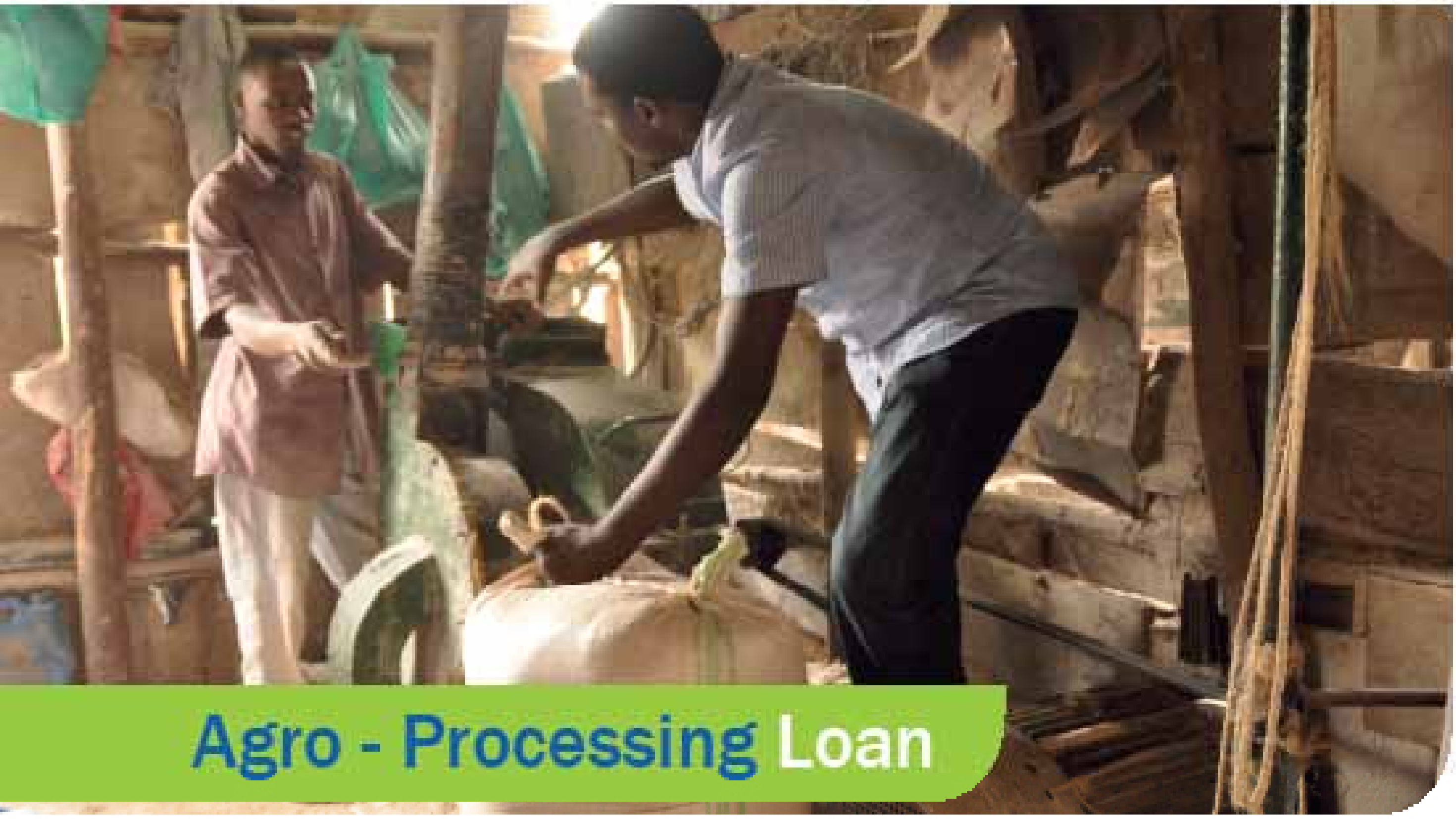
With the conditional approval granted by the Central Bank to transform Finance Trust into a commercial bank, the institution succeeded in identifying potential investors to bring in the additional capital. I am happy to report that through our transactional advisor, Deloitte and Touche, three investors i.e RIF North 1, I&PAE and Progression Eastern African Microfinance Equity Fund, were identified and a currently being vetted by the Central Bank.

Finance Trust is grateful to all stakeholders, especially our customers, who continue to be loyal to us. We value the support you have all generously given to the institution and assure you of our continued commitment to support your growth as we get into 2013.

Lets Grow.

Anne N. Mulindwa
C.E.O

Trust Agro-Financing



The Finance Trust Agro–Processing Loan is an affordable loan for farmers who wish to add value to agricultural products through processing and purchase of equipment like tarpaulins, packaging material, branding materials, water tanks, machinery, labour and other operating expenses. This loan is offered to individuals, joint, groups, associations and companies dealing in agricultural processing.

Benefits

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

FINANCE trust

Let's Grow

Board of Directors









First row
Irene Muloni - ChairPerson
Grace Namulinda Aliakai - EXCO / Audit / BRC - Member
Lydia Ochieng Obbo - EXCO / ALCO - Member

Second row
Tor Gull - EXCO / ALCO - Member
Rtd Justice Mary Maitum - EXCO / ALCO - Member
Jean Louis de Montesquiou - EXCO / ALCO - Member

Third row
Judy Ngarachu - EXCO / ALCO / Audit / BRC - Member
Moses Kimuli - Company Secretary
Jeremy Hajdenberg - EXCO / ALCO - Member

Senior Management











First row

Anne N. Mulindwa - CEO
Ruth Doreen Mutebe - Head of Internal Audit
Mark Charles Mwanje - Ag. Head of Risk
Dennis Kakeeto - Head of Finance and Administration

Second row

Rachael Nantongo - Head of Operations
Clare G. Tumwesigye - Head of Marketing
Monica Sanyu - Head of Human Resource
Anthony Gumira - Head of Credit

Third row

Maria Nakayima Obiga - Legal Manager
Evarest Nsereko Kyewalabye - Compliance Manager
Robert Mugabe - Head of ICT

Corporate Social Responsibility

(CSR) is an integral part of the way Uganda Finance Trust conducts its business. It is part of a continued commitment as a business to ethically contribute to economic development of the communities in which we operate while improving the quality of life of not only the local community and society but of the workforce and their families at large. As an institution, we have a duty to fulfil the expectations of our shareholders, employees, customers, community and the public, by tackling social problems which may not be the direct outcome of our business operations.

The institution deliberately promotes causes that meet the present needs of the community without compromising the ability of future generations to meet their own needs. At all times, we ensure that we touch the lives of people through direct initiatives geared towards improving their lives and the environment in which they live or operate their businesses.

Aiding education

During the year 2012, Finance Trust contributed towards setup of the only secondary school in Namunyumya Subcounty in Busembatia District, by donating classroom desks for Bishop willigers secondary school to aid education of children in that area. This school, which had just opened had 135 students in various classes but they had nowhere to sit or place their books as they took classes.

Responding to needs

When Finance Trust launched a branch in Arua, one of the apparent needs that was raised by some of the customers, was lack of adequate shelter for their merchandise in the market. The institution had the opportunity to respond to this need by supporting the Arua market vendors with tarpaulins with which they would cover their produce in the night or as it rained. Some customers also needed tarpaulins on which they would lay their produce or merchandise because they previously lay it on the ground.

Protecting lives through road safety

Road safety is everyone's responsibility and should be observed at all times. It is with this in mind that Finance Trust took time off to paint 3 zebra crossings which had faded in Mbarara town. The zebra crossing painted were Mbarara university, BOU and Main street. We recognise that this act may have gone a long way in saving lives of both pedestrians and divers/passengers.

Sustainability Report

Finance Trust with technical assistance from aBi Trust, developed a range of credit products along the agricultural value chain. This was meant to address the financial needs of a specific segment of our customers that survive mainly on agricultural related activities. These form most of our rural target market, where 21 out of our 30 branches are located.

In order to provide agricultural financing, the institution had a need for a reliable and affordable source of on lending funds for agriculture loans for the rural customers who are mainly involved in production. For this we thank ABi for partnering with Finance Trust to support Agro financing. This has led to deepened outreach especially in the rural areas where livelihoods depend solely on agriculture.

The agro loan products provide financing to small and medium entrepreneurs in rural areas, who generate at least 60% of their income from agriculture and/or livestock activities. This has enabled Finance Trust grow its clientele and loan portfolio while increasing income and improving profitability.

As a means of ensuring uptake and success for the agro products, the institution came up with specific innovations to mitigate risks associated with Agriculture like Agro insurance especially for customers engaged in production where climate change, like prolonged droughts and intermittent rains which are not easy to forecast, may lead to high levels of default.

Finance Trust provides Agro financing not only to increase our customers' production capacities but also to improve the quality of their yields for better returns for financial independence.

Finance Trust Agro Financing in parternship with aBi Trust

aBi TRUST

Uganda Finance Trust was started by women to empower fellow women. In this regard, the needs of women have been central to the institutions' activities and are in every plan the institution has. To this end the institution realized a need to develop a product specifically targeting and addressing women's financial needs in line with the company mission and vision of providing customized financial services to low and medium income people especially women for poverty eradication.

In line with the above, four products were developed to enable low income earning women realize full benefits of using a financial institution to empower themselves financially and these include; Mama's Safe savings account–individual (MSIP), Mamas' Safe savings account–group (MSGP), Mama's Safe individual loan (MILP) and Mamas' Safe group loan (MGLP).

Finance Trust wanted to address a key socio economic challenge that women face in seeking medical attention. They face cost, quality and time issues which the Mama's Safe products tackle thereby enabling them to access affordable quality healthcare for them and their families, thus impacting positively on their lives.

The unique feature of this product is that it has a medical insurance component where all the women are required to pay an annual premium in order to access in and outpatient medical services from AAR clinics and affiliate facilities. Any woman above the age of 18 is eligible to open a Mama's Safe account and enjoy the benefits that come with it including preferential interest rates whether they are an individual, in a partnership or in a group.

2012 in pictures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1. The CEO, Anne Mulindwa, proudly shows an NSSF award for being best employer Bakuli branch. **2.** Beatrice Okanya of Mbale branch is handed a certificate of recognition for her 18-year loyalty to Finance Trust in the customer week. **3.** Far East customers attend a regional workshop in Mbale. **4.** A customer of central branch receives a key and log book for a motorcycle she won in the 'Kyengedde' promotion from the regional supervisor Central.

5. Mbale branch staff dressed in cultural wear during the customer week. **6.** A Junior Savers customer receives a flat iron won during the 'Kyengedde' promotion. **7.** Youth attending the launch of Finance Trust Youth Savings products at a conference at Nsambya Sharing Hall. **8.** The CEO, Anne Mulindwa, addresses youth during the launch of the Youth Savings products at Nsambya Sharing Hall.

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Trust Agro-Financing

Agro - Investment Loan

The Finance Trust Agro–Investment Loan is availed to commercial farmers with small and medium enterprises involved in capital intensive agricultural activities along the value chain from production to marketing. This loan facilitates the acquisition of agricultural machinery, vehicles, storage facilities, land, farm houses etc, and is offered to individuals, groups, associations and companies.

Benefits

- Increase your working capital
- Pay loan in small manageable instalments
- Enjoy low interest rates
- Pay loan over a long period of time
- Farmers in groups can get up to 4 million per farmer
- Grace period allowed where applicable
- Purchase business assets like cars, milk coolers, land, and irrigation equipment

FINANCE trust

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Financial Report

Contents of Financial Report

Corporate Information

Bankers

Citibank Uganda Limited
Centre Court,
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Kampala, Uganda

Bank of Africa – Uganda Limited

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P.O. Box 2750
Kampala, Uganda

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

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

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

Stanbic Bank Uganda Limited

IPS Branch
P.O. Box 973
Kampala, Uganda

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

Solicitors

Ligomarc Advocates
Social Security House
4 Jinja Road
P.O.Box 8230
Kampala, Uganda

Secretary

Mr. Moses Kimuli
P. O. Box 22593
Kampala, Uganda

Auditors

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

Report of the directors for the year ended 31st December 2012

The directors submit their report together with the audited financial statements for the year ended 31 December 2012, which disclose the state of affairs of Uganda Finance Trust Limited ("the Company").

Principal activities

The Company is engaged in the business of micro finance, providing savings and loan services to the micro and small scale sector.

Results

The net profit for the year is Shs 1,530 billion (2011: Shs 1,529 billion). The directors do not recommend the payment of dividend for the year ended 31 December 2012.

Directors

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

Mrs. Irene Muloni	Chairperson
Ms. Anne Nakawunde	CEO (Approved effective March 2012)
Mrs. Grace Aliakai	Director
Mr. Patrice Hoppenot	Director
Mrs. Lydia Ochieng Obbo	Director
Mr. Jeremy Hadjdenberg	Director – Alternate to Mr. Jean-Louis
Mr. Tor G. Gull	Director – Alternate to Ms. Judy Ngarachu
Justice Mary Maitum	Director
Mr. Jean-Louis de Montesquiou	Director
Ms. Judy Ngarachu Director	Director

Auditor

The auditors, KPMG, have expressed willingness to continue in office in accordance with section 159 (2) of the Uganda companies Act.

Approval of the financial statements:

These financial statements were approved by the board of Directors on 19th April 2013

....
Director

Date: 19th April 2013

....

Company Secretary

Date: 19th April 2013

Statement of Directors' Responsibilities

The UFT'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, Micro Finance Deposit Taking Institutions Act 2003, 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 Republic of Uganda Companies' Act, the Directors are required to prepare financial statements for each year that gives a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records that disclose with reasonable accuracy the financial position of the company.

The directors accept responsibility for the financial statements set out on pages 7 to 54 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, Uganda Companies' Act and Micro Finance Deposit Taking Institutions' Act 2003. 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 2012. 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, Republic of Uganda Companies' Act and Micro Finance Deposit Taking Institutions' Act 2003.

Approval of the Financial Statements

The financial statements, as indicated above, were approved by the board of directors on 25th March 2013 and were signed on its behalf by:

Director	Director
25th March 2013	25th March 2013

Report of the independent auditors to the members of Uganda Finance Trust limited

Report on the financial statements

We have audited the accompanying financial statements of Uganda Finance Trust Limited (MDI) set out on pages 7 to 53. These financial statements comprise the Statement of financial position as at 31 December 2012, 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 4, 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 Micro Finance Deposit Taking Institutions' Act 2003 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 opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial position of Uganda Finance Trust Limited (MDI) as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, Micro Finance Deposit Taking Institutions' Act 2003 and have been prepared in the manner required by the Ugandan Companies' Act.

Report on other legal requirements

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

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) In our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) The company's Statement of Financial Position and Statement of Comprehensive Income are in agreement with the books of account

KPMG
Certified Public Accountants
P O Box 3509
Kampala, Uganda

Date: **24th April 2013**

Statement of comprehensive income

	Notes	2012 Shs '000	2011 Shs '000
Interest income	5	**16,794,098**	14,464,790
Interest expense	6	**(4,319,622)**	(3,066,461)
Net interest income		**12,474,476**	**11,398,329**
Fees and commission income	7	**8,047,132**	6,134,397
Net fees and commission income		**8,047,132**	6,134,397
Other Income	9	**1,331,225**	647,978
Grant Income	25	**119,722**	123,697
Designated fund income	22	**429,365**	160,415
Total Operating Income		**22,401,920**	18,464,816
Impairment losses on loans and advances	13	**(969,071)**	(806,808)
Net income after impairment		**21,432,849**	17,658,008
Staff Costs & other benefits	8(a)	**(10,364,381)**	(8,199,510)
Depreciation & Amortization	15 & 16	**(1,229,643)**	(1,031,288)
Operating expenses	8(b)	**(8,669,614)**	(6,664,387)
Profit before income tax		**1,169,211**	1,762,823
Income tax charge	10	**361,073**	(233,522)
Profit for the year		**1,530,284**	1,529,301
Other comprehensive income		**-**	-
Total comprehensive income for the year		**1,530,284**	**1,529,301**

Statement of financial position

	Notes	2012 Shs '000	2011 Shs '000
ASSETS			
Cash and Bank Balances	11(a)	8,008,757	3,816,479
Deposit with Bank of Uganda	11(b)	50,000	50,000
Placements with other Banks	12	519,662	2,187,451
Loans and advances to customers	13	48,202,973	41,011,963
Due from related parties	23	14,337	-
Other assets	14	3,390,961	1,586,172
Current income tax recoverable		212,379	212,380
Deferred income tax asset	17	297,828	-
Property and equipment	15	4,844,570	4,662,350
Intangible assets	16	505,091	486,406
Total assets		**66,046,558**	**54,013,201**
LIABILITIES			
Customer deposits	18(a)	32,451,543	25,853,278
Loan guarantee fund	18(b)	490,149	466,536
Bank overdraft	19	3,543,964	144,521
Other liabilities	20	2,730,358	2,377,353
Borrowed funds	21	13,699,527	11,804,178
Finance Lease	31	76,457	-
Deferred income tax	17	-	63,246
Designated funds	22	512,045	306,976
Due to related parties	23	1,340,888	1,688,754
Employee benefits provisions	24	239,457	1,862,237
Capital grants	25	381,670	395,906
Total liabilities		**55,466,058**	**44,962,985**
EQUITY			
Share capital	26	8,585,402	5,868,500
Regulatory reserve	27	580,452	464,814
Retained earnings		1,414,646	2,716,902
Total equity		10,580,500	9,050,216
Total equity and liabilities		**66,046,558**	**54,013,201**

The financial statements on pages 38 to 83 were approved for issue by the Board of Directors on 19th April 2013 and signed on its behalf by:

Director　　　　　　　　Director

The accounting policies and notes set out on pages 11 to 53 form an integral part of these financial statements

Statement of changes in equity

	Notes	Share Capital	Share premium	Retained Earnings	Proposed Dividend	**Regulatory reserve**	**Total Equity**
Year ended 31 December 2011		Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
At start of	**26**						
Profit for the year		5,868,500	-	1,293,732	-	358,683	7,520,915
Transfer to regulatory reserve		-	-	1,529,301	-	-	1,529,301
Transactions with owners:			-	(106,131)	-	106,131	-
At end of year		**5,868,500**	-	**2,716,902**	-	**464,814**	**9,050,216**
Period ended 31 Dec 2012							
At start of period	**26**	5,868,500	-	2,716,902		464,814	9,050,216
Profit for the yea r		-	-	1,530,284	-	-	1,530,284
Transfer to regulatory reserve	**27**	-	-	(115,638)	-	115,638	-
Transactions with owners:							
Issue of Ordinary shares -							
Transfer from retained earnings		2,716,902	-	(2,716,902)	-	-	-
31 Dec 2012		**8,585,402**	-	**1,414,646**	-	**580,452**	**10,580,500**

The accounting policies and notes set out on pages 42 to 83 form an integral part of these financial statements

Statement of cash flows

	Notes	2012 Shs '000	2011 Shs '000
Cash flows from operating activities			
Interest receipts		16,643,049	14,166,798
Interest payments		(4,338,372)	(2,553,772)
Net fee and commission receipts		7,782,423	6,534,664
Other income received	9	1,256,554	594,353
Recoveries from loans previously written off	9	68,123	47,397
Payments to employees and suppliers		(18,840,742)	(13,795,771)
Income tax paid		-	(137,117)
Cash flows from operating activities before changes in operating assets and liabilities		**2,571,035**	**4,856,552**
Changes in operating assets and liabilities:			
- loans and advances		(7,222,296)	(7,022,999)
- other assets		(1,804,789)	(103,199)
- customer deposits		6,358,105	3,753,981
- loan guarantee fund		23,613	(88,683)
- other liabilities		(1,030,136)	(394,723)
- Employee benefits		(1,749,562)	(342,581)
- amounts due to related parties		(333,529)	(71)
Net cash from operating activities		**(3,187,559)**	**658,277**
Cash flows from investing activities			
Placements with other banks		1,667,789	(662,068)
Purchase of property and equipment	15	(1,243,132)	(1,361,384)
Purchase of intangible assets	16	(247,532)	(193,574)
Proceeds from sale of property and equipment		35,063	10,485
Net cash used in investing activities		**212,188**	**(2,206,541)**
Cash flows from financing activities			
Increase in designated funds	22	205,069	282,796
Net movement in borrowings	21	1,895,349	(2,713,523)
Net cash from financing activities		**2,100,418**	**(2,430,727)**
Net increase in cash and cash equivalents		(874,953)	(3,978,991)
Cash and cash equivalents at start of year		5,859,409	9,838,400
Cash and cash equivalents at end of year	29	**4,984,456**	**5,859,409**

Notes (Continued)

1 General information

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The company's financial statements have been prepared in accordance with International Financial Reporting Stand ards (IFRS) as issued by the International Accounting Standards Board. Additional information required by national regulations is included where appropriate. The financial statements have been prepared under the historical cost con vention, except for available-for-sale financial investments which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting es timates. It also requires the directors to exercise judgment in the process of applying the company's accounting poli cies. Changes in assumptions may have a significant impact on the financial statements in the period the assump tions changed. The directors believe that the underlying assumptions are appropriate and that the company's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Changes in accounting policy and disclosures

Standards and interpretations issued but not yet effective

UFT has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2012:

Adoption of new and revised standards and interpretations

For accounting periods beginning 1 January 2012, new and revised standards and interpretations listed below became effective for the first time and some have been adopted by UFT. The adoption of these new and revised standards and interpretations had no material effect on UFT's accounting policies.

Amendment to IAS 1: Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income: Effective 1 July 2012

The company will present those items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. The related tax effects for the two sub-categories will be shown separately. This is a change in presentation and will have no impact on the recognition or measurement of items in the financial statements. The amendment will be applied retrospectively and the comparative information will be restated. However, this has had no impact on the Company.

Amendment to IAS 12: Income Tax: Recovery of Underlying Assets: Effective 1 January 2012

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

Standards and interpretations issued but not yet effective
UFT has chosen not to early adopt the following standards and interpretations that were issued but not effective for accounting periods beginning on 1 January 2012.

IAS 1, Presentation of financial statements *"(applicable beginning on or after 1 July 2012)"* - The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. UFT will be required to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. If UFT chooses to present OCI items before tax, it will be required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to „statement of profit or loss and other comprehensive income" , though IAS 1 still permits entities to use other titles. l

IAS 19, Employee benefits *"(applicable beginning on or after 1 January 2013)"* - The amendment to IAS 19, "Employee benefits" makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for all employee benefits. Key features are as follows:
Actuarial gains and losses are renamed re-measurements "and can only be recognized in „other comprehensive income" without any recycling through profit or loss in subsequent periods

Past service costs will be recognized in the period of a plan amendment and curtailment occurs only when an entity reduces significantly the number of employees.

The amendment clarifies the definition of termination benefits. Any benefit that has a future service obligation is not a termination benefit.

Annual benefit expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability.
This amendment is not expected to have any impact as the bank does not operate a defined benefit fund.

IFRS 9, „Financial instruments" part 1: Classification and measurement and part 2: Financial liabilities and De-recognition of financial instruments – (applicable beginning on or after 1 January 2013)

IFRS 9, part 1 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

IFRS 9, part 2 was issued in October 2010 and includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation of financial liabilities and for derecognising financial instruments has been relocated from IAS 39, „Financial instruments: Recognition and Measurement", without change except for financial liabilities that are designated at fair value through profit or loss.

Under the new standard, entities with financial liabilities at fair value through profit or loss recognise changes in the liability's credit risk directly in other comprehensive income. There is no subsequent recycling of the amounts in other comprehensive income to profit or loss, but accumulated gains or losses may be transferred within equity.

IFRS 13, „Fair value measurement" (applicable beginning on or after 1 January 2013) - IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity. The guidance includes enhanced disclosure requirements that could result in significantly more work for the Bank. The requirements are similar to IFRS 7, „Financial instruments: Disclosures" but apply to all assets and liabilities measured at fair value, not just financial ones.

Other new standards include the following

International Financial Reporting Standards and amendments issued but not effective for 31 December 2012 year-end			
Number	**Title**		**Executive summary**
Amendment to IAS 19	Employee benefits	1-Jan-13	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.
IAS 27 (revised 2011)	Separate financial statements	1-Jan-13	IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
IAS 28 (revised 2011)	Investments in Associates and Joint Ventures	1-Jan-13	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
IAS 32	Offsetting Financial Assets and Financial Liabilities	1-Jan-14	The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Company no longer offsetting two of its master netting arrangements.
IFRS 7 amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities	1-Jan-13	The amendments contain new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position; or are subject to enforceable master netting arrangements or similar agreements. The Company applies offsetting in the financial statements and will be required to provide additional disclosures in this regard.
IFRS 10	Consolidated financial statements	1-Jan-13	The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.
IFRS 11	Joint arrangements	1-Jan-13	IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.
IFRS 12	Disclosures of interests in other entities	1-Jan-13	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
IFRS 10, IFRS 12 and IAS 27 amendment	Investment Entities	1-Jan-14	The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.
IFRS 9 (2009)	Financial Instruments	1-Jan-15	

IFRS 9 (2010)	Financial Instruments	1-Jan-15	The standard introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.
IFRIC 20	IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1-Jan-13	The amendment introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

2 Summary of significant accounting policies (continued)

(b) Foreign currency translation

(i) Functional and reporting currency

Items included in the company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').
The financial statements are presented in Uganda Shillings (Shs), which is the company's functional and presentation currency. The figures shown in the financial statements are stated in Shs thousands.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

(c) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' or 'interest expense' in the profit and loss account using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(d) Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

2 Summary of significant accounting policies (continued)

(e) Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition. Currently the Company does not have financial assets at fair value through profit or loss.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading. Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces or eliminates a measurement inconsistency; or

- they form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

As at 31 December 2012, the Company did not have any financial assets designated as at fair value through profit and loss.

(ii) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those classified as held for trading and those that the Company on initial recognition designates as at fair value through profit and loss;
- those that the Company upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate the loan – and measured subsequently at amortized cost. Loans and receivables are reported in the statement of financial position as advances to customers. Interest on loans is included in the income statement and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the income statement as 'loan impairment charges'.

(iii) Held-to maturity financial assets

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Company to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

2 Summary of significant accounting policies (continued)

(e) Financial assets (continued)

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognized at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as "gains and losses from investment securities".

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances

(f) Financial liabilities

The Company holds its financial liabilities at amortized cost. Financial liabilities measured at amortized cost are deposits from customers, overdrafts, borrowings, capital grants and other liabilities.

(g) Offsetting

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

(h) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i). adverse changes in the payment status of borrowers in the portfolio; and
(ii). national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio.

(i) Assets carried at amortized cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit and loss account. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (e.g. changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are classified in loan impairment charges whilst impairment charges relating to investment securities are classified in 'Net gains/ (losses) on investment securities'. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit and loss account.

In addition to the measurement of the impairment losses on loans and advances in accordance with IFRS as set out above, the Bank is required by the MDI Act 2003 to estimate losses on loans and advances as follows:

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

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

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

In the event that provisions computed in accordance with the Microfinance Deposit Taking Institutions Act 2003 exceed provisions determined in accordance with IFRS, the excess is accounted for as an appropriation of retained earnings. Otherwise no further accounting entries are made.

(ii) Assets carried at fair value

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit and loss account.

Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit and loss account. As at 31 December 2012, the company did not have any assets carried at fair value.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

(i) Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are charged to 'operating expenses' during the period in which they are incurred.

Freehold land is not depreciated. 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 annual depreciation rates in use are:

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

2 Summary of significant accounting policies (continued)

(i) Property and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income / expenses in the income statement as it may require.

(j) Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding three years).

(k) Income tax

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

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

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

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

(l) Cash and cash equivalents

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

(m) Employee benefits

National Social Security Fund

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.

Service Gratuity

The company operates an employee service gratuity plan for confirmed staff with the exception of senior management whereby the company contributes one month's salary for each period of service completed. The company contributes 25% of total annual basic pay per year for senior management. Provision for gratuity is made in the financial statements based on the average of salary paid in the current year.

The Company's contributions to the defined contribution schemes are charged to the profit and loss account in the year in which they fall due.

Annual Leave

Each employee is entitled to a holiday with full pay at the rate of 7days for every four months of continuous service in accordance with the Employment Act 2006 which is taken at a time agreed with the company and the employee. These days may be carried forward if not taken within the year. Provision for leave is made in the financial statements based on the salary paid at end of the current year.

(n) Deposits

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

(o) Borrowings

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

(p) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(q) Dividends payable

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

(i) With the Company as lessee

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

The company also entered into a finance lease arrangement with DFCU bank and in this regard, the company has 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.

(ii) With the Company as lessor

Leases of assets where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

To date, the Company has not leased out any assets.

(s) 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.

(t) Comparatives

Where necessary, prior year figures have been reclassified to conform to the current year presentations. The following reclassifications were made:

	2012 Shs '000	2011 Reclassified Shs '000	2011 Previously reported Shs '000
Due to related parties reclassified from borrowed funds	335,319	670,018	-
Borrowed funds reclassified to related parties	-	-	670,018

3 Critical accounting estimates and judgments in applying accounting policies

The Company makes estimates and assumptions concerning the future. 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 resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit and loss account, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Company. As at 31 December 2012, an IAS 39 provision was computed for unidentified and identified impairment. For significant facilities with an outstanding balance of Shs 5 million and above, the impairment loss was measured first on the basis of the present value of estimated future cash flows discounted at the original effective interest rate. Future expected cash flows were determined based on the value of the collateral held for which the Company's interest was registered. For all loans not identified as individually impaired and for those identified as being impaired but classified as insignificant, an impairment provision was computed using the Company's historical loss ratio of 1.58%. (2011: 1.36%) which was obtained and applied to individual loans to arrive at impairment loss. Total IAS 39 provisions for both identified and unidentified impairment amounted to Shs 851 million.

(b) Held-to-maturity financial assets

The Company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held-to-maturity. This classification requires significant judgement. In making this judgement, the Company evaluates its intention and ability to hold such assets to maturity. If the Company fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortized cost. If the entire class of held-to-maturity assets were tainted, the carrying value would not increase or decrease, thus no corresponding entry in the fair value reserve in shareholders' equity.

4 Financial risk management

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

Risk management is carried out by Treasury under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management in the ALM manual.

(a) Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Company by failing to pay amounts in full when due. Credit risk is the most important risk for the Company's business: management therefore carefully manages the exposure to credit risk through the management ALCO committee. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

(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 Company 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

4 Financial risk management

(a) Credit risk (continued)

(i) Credit risk measurement (continued)

(a) Loans and advances (continued)

- Normal credit risk (Pass) is a credit facility, which is up-to-date in payments;

- Watch (Special Mention) is a credit facility in which the principal or interest is due and unpaid for eight days or more but less than thirty days

- Substandard is a credit facility in which the principal or interest is due and remains unpaid for thirty days or more but less than sixty days.

- Doubtful is a credit facility in which the principal or interest is due and remains unpaid for sixty days or more but less than ninety days.

- Loss is a credit facility in which the principal or interest is due and remains unpaid for ninety days or more.

Exposure at default

Exposure at default is based on the amounts the Company 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 Company'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 Company 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.

(iii) Impairment and provisioning policies

The impairment allowance shown in the balance sheet at year end is derived from each of the five internal rating grades.

Bank's rating	Credit exposure %	2012 Impairment allowance %	Credit exposure %	2011 Impairment allowance %
Performing	95.2	86.7	96.1	75.7
Watch	1.7	1.5	1.7	1.3
Substandard	0.8	1.5	0.9	0.7
Doubtful	0.8	6.2	0.3	0.3
Loss	1.5	4.1	1.0	22.0
	100.0	100.0	100.0	100.0

(iv) Maximum exposure to credit risk before collateral held

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

	2012 Shs '000	2011 Shs '000
Deposit with Bank of Uganda	50,000	50,000
Placements with other banks	519,662	2,187,451
Bank balances- amounts due from other banks	8,008,757	1,400,431
Loans and advances to customers	48,202,973	41,100,923
Other assets	3,390,961	1,586,172
	60,172,353	46,324,977

The above table represents a worse case scenario of credit risk exposure to the Company at 31 December 2012 and 31 December 2011, 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, 80.0% of the total maximum exposure is derived from loans and advances to customers (Dec 2011: 88.7%), 0.9% represents placements with other banks (Dec 2011: 4.7%) and 13.3% represents amounts due from other banks (Dec 2011: 3.0%).

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.

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 Company exercises stringent controls over the granting of new loans;
- 96.9% of the loans and advances portfolio are neither past due nor impaired; and
- 100% of the loans and advances portfolio are backed by collateral.

4 Financial risk management (continued)

(a) Credit risk (continued)

(v) Loans and advances

Loans and advances are summarized as follows:

Agriculture	9,388,528	2,394,278
Manufacturing	944,490	623,525
Trade and commerce	21,637,106	24,954,135
Transport and Communication	2,600,491	1,838,566
Building and Construction	6,383,642	2,994,921
Personal loans, service industry and others	8,127,878	8,804,941
Gross loans and advances	49,082,135	41,610,366
Less: Provision for impairment of loans and advances		
- Individually assessed	(107,422)	(48,404)
- Collectively assessed	(771,740)	(549,999)
	48,202,973	**41,011,963**

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 Company adopted from the MDI Act 2003 and MDI Regulations 2004:

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 2011	**Shs '000**	**Shs '000**	**Shs '000**
At start of year	20,000	465,526	485,526

Loans and advances past due but not impaired

Loans and advances less than 30 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2012	**2011**
	Shs '000	**Shs '000**
Past due up to 7 days	106,115	10,633
Past due 8 – 29 days	812,651	699,483
Past due over 29 days	1,342,268	828,955
Total	**2,261,034**	**1,539,071**
Fair value of collateral held	**11,286,232**	**4,617,213**

The table below shows the Collateral coverage for secured loans as at year end 31 December 2012

	Secured Loans Shs '000	Netting off agreements (cash secured) Shs '000	Exposure after Netting off Shs '000	51-100% Shs '000	Collateral Coverage Over 100%
Secured Loans	49,082,135	-	49,082,135	5,325,158	43,756,977
Unsecured	-	-	-	-	-
Total	49,082,135	-	49,082,135	5,325,158	43,756,977

	Secured Loans Shs '000	Netting off agreements (cash secured) Shs '000	Exposure after Netting off Shs '000	51-100% Shs '000	Collateral Coverage Over 100%
Secured Loans	41,610,366	0	41,610,366	4,161,036.6	37,449,329
Unsecured	-	-	-	-	-
Total	41,610,366	-	41,610,366	4,161,036.6	37,449,329

4 Financial risk management (continued)

(a) Credit risk (continued)

Loans and advances assessed for impairment

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

	2012 Shs '000	2011 Shs '000
Individually assessed impaired loans and advances	166,266	110,415
Fair value of collateral held	166,266	110,415

Concentrations of risk

Economic sector risk concentrations within the customer loan portfolios were as follows:

	Loans and advances	
	2012	**2011**
At 31 Dec 2012	%	%
Agriculture	19	6
Manufacturing	2	2
Trade commerce	44	60
Transport communication	5	4
Building and construction	13	7
Personal loans, service industry and others	17	21
	100	**100**

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

The Company is exposed to daily calls on its available cash resources from demand and maturing deposits. The company 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 Company maintain a cash reserve ratio. The treasury department monitors liquidity ratios on a daily basis.

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.

4 Financial risk management (continued)

(b) Liquidity risk (continued)

At 31 Dec 2012	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Liabilities						
Customer deposits	3,531,946	3,905,185	3,684,226	21,330,186	-	32,451,543
Loan guarantee fund	147,044	196,060	98,030	49,015	-	490,149
Bank overdraft	3,543,964	-	-	-	-	3,543,964
Finance Lease	1,817	3,748	18,918	51,974	-	76,457
Other liabilities	819,107	1,365,179	546,072	-	-	2,730,358
Borrowed funds	307,293	1,619,788	4,684,816	7,087,630	-	13,699,527
Due to related parties	-	88,997	177,994	1,073,897	-	1,340,888
Provisions for gratuity	-	-	-	239,457	-	239457
Total financial liabilities	**8,351,171**	**7,178,957**	**9,210,056**	**29,832,159**	-	**54,572,343**
(contractual maturity dates)						
Assets						
Cash and Bank Balances	8,008,757					8,008,757
Bank of Uganda balance	-	-	-	-	50,000	50,000
Placements with other banks	-	-	519,662	-	-	519,662
Loans and advances to customers-(Gross)	5,765,531	9,903,661	21,675,357	10,858,424	-	48,202,973
Other assets	299,612	1,723,522	1,034,113	333,714	-	3,390,961
Total financial asset	**14,073,900**	**11,627,183**	**23,229,132**	**11,192,138**	**50,000**	**60,172,353**
(expected maturity dates)						
Net Liquidity gap	**5,722,729**	**4,448,226**	**14,019,076**	**(18,640,021)**	**50,000**	**5,600,010**

4 Financial risk management (continued)

(b) Liquidity risk (continued)

At 31 Dec 2012	Up to month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Liabilities						
Customer deposits	4,031,526	3,234,506	3,479,789	15,107,458	-	25,853,279
Loan guarantee fund	139,961	186,614	93,307	46,654	-	466,536
Bank overdraft	144,521	-	-	-	-	144,521
Other liabilities	242,204	681,928	1,453,221	-	-	2,377,353
Borrowed funds	28,513	430,343	57,034	9,906,098	2,053,208	12,475,196
Due to related parties	-	-	-	1,017,736	-	1,017,736
Provisions for gratuity	-	-	48,573	1,813,664	-	1,862,237
Total financial liabilities	**4,586,725**	**4,533,391**	**5,131,924**	**27,891,610**	**2,053,208**	**44,196,858**
(contractual maturity dates)						
Assets						
Cash and Bank Balances	3,816,479					3,816,479
Placements with other banks	2,187,451	-	-	-	-	2,187,451
Loans and advances	671,385	1,951,168	4,026,549	34,961,265		41,610,367
to customers-(Gross)					-	
Other assets	703,519	882,653	-	-	-	1,586,172
Total financial asset	**7,378,834**	**2,833,821**	**4,026,549**	**34,961,265**	-	**49,200,469**
(expected maturity dates)						
Net Liquidity gap	**2,792,109**	**(1,699,570)**	**(1,105,375)**	**7,069,655**	-	**5,003,611**

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Stress tests

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

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

As at 31 December 2012, 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 Shs3.21 billion (Dec 2011: Shs 1.62 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 2012. Included in the table are the Company's financial instruments, categorised by currency (all amounts expressed in thousands of Uganda Shillings).

(4) Financial risk management (continued)

(c) Market risk (continued)

Currency risk (continued)

At 31 December 2012	USD	Shs'000	Total
Assets			
Cash and Bank Balances	15,169	7,993,588	8,008,757
Deposit with Bank of Uganda	-	50,000	50,000
Placements with other Banks	-	519,662	519,662
Loans and advances to customers	-	48,202,973	48,202,973
Other assets	-	3,390,961	3,390,961
Total assets	**15,169**	**60,157,184**	**60,172,353**
Liabilities			
Customer deposits	-	32,451,543	32,451,543
Loan guarantee fund	-	490,149	490,149
Bank overdraft	-	3,543,964	3,543,964
Other liabilities	-	2,730,358	2,730,358
Borrowed funds	-	13,699,527	13,699,527
Designated funds	-	512,045	512,045
Due to related parties	-	1,340,888	1,340,888
Provisions for gratuity	-	239,457	239,457
Total liabilities	-	**55,007,931**	**55,007,931**
Net on-balance sheet position	**15,169**	**5,149,253**	**5,164,422**
At 31 December 2011			
Total assets	17,614	48,723,411	48,741,025
Total liabilities	-	44,503,834	44,503,834
Net on-balance sheet position	**17,614**	**4,219,577**	**4,237,191**

Interest rate risk

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

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

(4) Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

At 31 Dec 2012 **Assets**	**Up to 1 Month Shs'000**	**1-3 Months Shs'000**	**3-12 Months Shs'000**	**1-5 Years Shs'000**	**Over 5 Years Shs'000**	**Non-interest bearing Shs'000**	**Total Shs'000**
Cash and Bank Balances	-	-	-		-	8,008,757	8,008,757
Deposit with Bank of Uganda	-	-	-		50,000		50,000
Placements with other Banks	-	-	519,662	-	-		519,662
Loans and advances to customers	5,765,531	9,903,661	21,675,357	10,858,424	-		48,202,973
Due from related parties	-	-	-	-	-	-	-
Current income tax recoverable	-	-	-	-	-	212,379	212,379
Deferred income tax asset	-	-	-	-	-	293,727	293,727
Other assets	-	-	-		-	3,390,961	3,390,961
Property and equipment	-	-	-		-	4,844,570	4,844,570
Intangible assets	-	-	-		-	505,091	505,091
Total assets	**5,765,531**	**9,903,661**	**22,195,019**	**10,858,424**	**50,000**	**17,255,485**	**66,028,120**
Customer deposits	3,531,946	3,905,185	3,684,226	21,330,186	-	-	32,451,543
Loan guarantee fund	147,044	196,060	98,030	49,015	-	-	490,149
Finance Lease	1,817	3,748	18,918	51,974		-	76,457
Other liabilities	-	-	-	-	-	2,730,358	2,730,358
Borrowed funds	307,293	1,619,788	4,684,816	7,087,630	-	-	13,699,527
Bank overdraft	3,543,964	-	-	-	-	-	3,543,964
Taxation payable	-	-	-	-	-	-	-
Deferred income tax	-	-	-	-	-	-	-
Designated funds	-	-	-	-	-	512,045	512,045
Due to related parties	-	88,997	177,994	1,073,897	-	-	1,340,888
Provisions for gratuity	-	-	-	-	-	239,457	239,457
Capital grants	-	-	-	-	-	381,670	381,670
Shareholder's equity	-	-	-	-	-	10,580,500	10,580,500
Total liabilities	**7,532,064**	**5,813,778**	**8,663,984**	**29,592,702**	-	**14,444,030**	**66,046,558**
Interest re-pricing gap	**(1,766,533)**	**4,089,883**	**13,531,035**	**(18,734,278)**	-		

(4) **Financial risk management (continued)**

Interest rate risk (continued)

At 31 December 2011	Up to 1 Month Shs'000	1-3 Months Shs'000	3-12 Months Shs'000	1-5 Years Shs'000	Over 5 Years Shs'000	Non-interest Bearing Shs'000	Total Shs'000
Total assets	6,675,315	1,951,168	4,026,549	34,362,491	-	6,784,928	53,800,451
Total liabilities	4,200,000	3,851,463	3,630,130	26,077,946	2,053,208	14,055,934	53,868,681
Interest repricing gap	**2,475,315**	**(1,900,295)**	**396,419**	**8,284,545**	**(2,053,208)**		

(4) Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest rates and exchange rates.

(d) Fair value of financial assets and liabilities

The fair value of held-to-maturity investment securities and other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Company at the balance sheet date.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable 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 2012 and 31 December 2011 the Company did not have financial assets and liabilities measured at fair value.

(4) Financial risk management (continued)

(d) Fair value of financial assets and liabilities (continued)

Financial instruments by category

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

At 31 Dec 2012	Loans and payables Shs '000	Other financial liabilities at amortised cost Shs '000	Total Shs '000
Liabilities as per balance sheet			
Customer deposits	-	32,451,543	32,451,543
Loan guarantee fund	-	490,149	490,149
Bank overdrafts	3,543,964	-	3,543,964
Due to related parties	1,340,888	-	1,340,888
Borrowed funds	13,699,527	-	13;699,527
Gratuity	239,457	-	239,457
Total	**18,823,836**	**32,941,692**	**51,765,528**

At 31 December 2011			
Assets as per balance sheet			
Cash and balances with bank	3,816,479	-	3,816,479
Deposit with Bank of Uganda	50,000	-	50,000
Placements with other banks	-	2,187,451	2,187,451
Loans and advances to customers	41,011,963	-	41,011,963
Total	**44,878,442**	**2,187,451**	**47,065,893**

At 31 December 2011			
Liabilities as per balance sheet			
Customer deposits	-	25,853,279	25,853,279
Loan guarantee fund	-	466,536	466,536
Bank overdrafts	-	-	-
Due to related parties	1,017,736	-	1,017,736
Borrowed funds	12,475,196	-	12,475,196
Current tax payable	-	-	-
Gratuity	1,306,886	-	1,306,886
Total	**14,799,818**	**26,319,815**	**41,119,633**

4 Financial risk management (continued)

(e) Capital management

The Company'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.

The Bank of Uganda requires each MDI to: (a) maintain, at all times, core capital, equal to the minimum paid-up capital requirements of Uganda Shillings five hundred million as specified in section 15 of the MDI act; (b) maintain, at all times, core capital of not less than 15% of the Risk Weighted Assets (RWA); (c) maintain, at all times, total capital of not less than 20% 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 50% of 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:

4 Financial risk management (continued)

(e) Capital management

Capital Adequacy	Carrying amount		Weights	Risk weighted amounts	
	2012	2011		2012	2011
Balance sheet assets (net of provisions)	Shs'000	Shs'000		Shs'000	Shs'000
Cash balances	3,653,219	2,416,049	0%	-	-
Bank balances	4,355,539	1,400,431	20%	871,108	280,086
Deposit with Bank of Uganda	50,000	50,000	0%	-	-
Placements with other banks	519,662	2,187,451	20%	103,932	437,490
Loans and advances to customers	48,202,973	41,011,963	100%	48,202,973	41,011,963
Other assets	3,390,961	1,586,172	100%	3,390,961	1,586,172
Current income tax recoverable	212,379	212,379	100%	212,379	212,379
Deferred income tax asset	293,727	-	100%	293,727	-
Property and equipment	5,349,661	4,662,350	100%	5,349,661	4,662,350
	66,028,121	**53,526,795**		**58,424,741**	**48,190,440**
Capital Ratios					
Tier 1 capital					
Paid-up share capital	8,585,402	5,868,500			
Share premium	-	-			
Retained earnings	-	1,187,601			
Year to date earnings (50%)	765,142	764,650			
	9,350,544	**7,820,751**			
Tier 2 Capital					
General provisions	771,739	549,619			
Subordinated debt	3,005,570	3,017,804			
Other reserves	580,451	375,844			
	4,357,760	3,943,267			
Total capital (Tier 1 +Tier 2)	**13,708,304**	**11,764,018**			

Capital ratios	2012	2011	Minimum ratios per MDI Act 2003
Core capital	16.0%	16.2%	15.0%
Total capital	23.5%	24.4%	20.0%

5 Interest income

	2012 Shs '000	2011 Shs '000
Loans and advances	16,695,381	14,173,824
Fixed Deposits	98,717	290,966
	16,794,098	**14,464,790**

6 Interest expense

	2012 Shs '000	2011 Shs '000
Customer deposits	1,119,194	757,651
Term loans	3,200,428	2,308,810
	4,319,622	**3,066,461**

7 Fees and Commission income

	2012 Shs'000	2011 Shs'000
Savings Income	1,646,601	1,470,222
Commissions Income	776,187	723,842
Loans Income others	5,624,344	3,940,333
	8,047,132	**6,134,397**

9 Other icome

	2012 Shs'000	2011 Shs'000
Rental income	32,474	1,200
Payment in lieu of notice	662	3,045
Exchange gain	17,559	9,673
Recovery of written off loans	68,123	47,397
Gain on sale of property and equipment	6,548	6,228
Write back of Leave Provisions	494,584	-
Others	711,275	580,435
	1,331,225	**647,978**

8a Staff costs and other benefits

	2012 Shs '000	2011 Shs '000
Basic pay	7,201,100	5,491,018
Bonus and incentives	663,211	526,061
Fuel allowance	223,229	188,880
Acting allowance	63,823	71,355
Leave allowance (Note 24)	81,557	109,105
Pension and gratuity	539,808	605,518
Other staff allowances	61,580	99,034
Payment in lieu of notice	8,750	12,324
NSSF employer's contribution	850,588	633,249
Funeral expenses	9,347	14,331
Staff welfare, teas and lunches	156,200	161,142
Staff settlement expenses	86,013	62,749
Staff uniforms	2,058	3,172
Casual labourers	12,952	7,434
Recruitment expenses	24,609	19,591
Medical expenses	236,438	68,078
Airtime expenses	120,138	91,315
Entertainment general	978	2,954
Cashier’s allowance	22,002	32,200
	10,364,381	**8,199,510**

8b Operating expenses

	2012 Shs '000	2011 Shs '000
The following items are included within operating expenses:		
Computer software expenditure	466,999	357,757
Auditors’ remuneration	88,671	87,600
Other professional costs	92,615	14,210
Bad debts written off others	-	187,087
Legal fees	57,427	61,737
Other direct loan costs	179,142	100,531
Non trading foreign exchange loss	8,987	4,707
Marketing and publicity expenses	582,802	417,472
Board expenses	330,276	314,413
Staff training	376,504	159,864
Other operating expenses (Note 8c)	6,486,191	4,959,009
	8,669,614	**6,664,387**

8c Other operating expenses

	2012 Shs '000	2011 Shs '000
Transport and travel	318,786	193,911
Motor vehicle expenses	286,493	263,595
Printing and stationery	419,299	289,947
Data rental services	412,394	368,675
Rent expenses	1,503,148	1,257,270
Utilities	619,109	482,870
Insurance expenses	246,296	174,748
Security expenses	1,030,664	866,753
Office expenses	470,984	358,727
Other administrative expenses	689,411	204,919
Write off of other debtors	489,607	497,594
	6,486,191	**4,959,009**

10 Income tax expense

	2012 Shs '000	2011 Shs '000
Current income tax	-	15,035
Deferred income tax	(361,073)	218,487
	(361,073)	**233,522**

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:

	2012 Shs '000	2011 Shs '000
Profit before income tax	1,169,212	1,762,823
Tax calculated at the statutory income tax rate of 30% (2011: 30%)	350,764	528,846
Tax effect of:		
Income not subject to tax	(771,647)	(173,170)
Income tax – prior year under/over provision	-	(12,331)
Expenses not deductable for tax	59,810	55,581
Other – provision released	-	(165,404)
Income tax (charge)/Credit	**(361,073)**	**233,522**

11 Cash and bank balances

	2012 Shs '000	2011 Shs '000
	3,653,219	2,416,049
a) Cash in hand	4,355,538	1,400,430
Bank balances	**8,008,757**	**3,816,479**
b) Deposit with Bank of Uganda	**50,000**	**50,000**

Deposits with Bank of Uganda represent mandatory reserve deposits and are not available for use in the company's day to day activities

12 Placements with other banks

	2012 Shs '000	2011 Shs '000
Maturing within 90 days	519,662	2,187,451
	519,662	**2,187,451**

The weighted average effective interest rate on placement with other banks was 17.7% (2011: 10%)

13 Loans and advances to customers

Agriculture	9,388,528	2,394,278
Manufacturing	944,490	623,525
Trade and commerce	21,637,106	24,954,135
Transport and Communication	2,600,491	1,838,566
Building and Construction	6,383,642	2,994,921
Personal loans, service industry and others	8,127,878	8,804,941
Gross loans and advances	49,082,135	41,610,366
Less: Provision for impairment of loans and advances		
- Individually assessed	(107,422)	(48,404)
- Collectively assessed	(771,740)	(549,999)
	48,202,973	**41,011,963**

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 2011	**Shs '000**	**Shs '000**	**Shs '000**
At start of year	20,000	465,526	485,526
Charge for the year	172,654	634,154	806,808
Write offs against provisions	(143,869)	(550,062)	(693,931)
At end of year	**48,785**	**549,618**	**598,403**
Period ended 31 December 2012			
At start of year	**48,785**	**549,618**	**598,403**
Charge for the year	84,804	884,267	969,071
Write offs against provisions	(26,167)	(662,145)	(688,312)
At end of year	**107,422**	**771,740**	**879,162**

14 Other assets

	2012	**2011**
	Shs '000	**Shs '000**
Prepayments	2,125,254	973,359
Staff debtors	240,025	97,227
Sundry receivables	903,592	375,163
Fees receivable	36	7,356
Inventory	122,054	133,067
	3,390,961	**1,586,172**

15 Property and equipment

Year ended 31 December 2011	Buildings Shs '000	Furniture and fittings Shs '000	Motor vehicles and motor cycles Shs '000	Computers Shs '000	Office equipment Shs '000	Leasehold impro-vements Shs '000	Total Shs '000
COST							
At start of the year	115,841	1,504,663	733,547	1,531,904	2,402,939	1,548,223	7,837,117
Additions	-	69,243	-	413,897	568,442	309,802	1,361,384
Disposals	-	-	(61,823)	-	-	-	(61,823)
At year end	**115,841**	**1,573,906**	**671,724**	**1,945,801**	**2,971,381**	**1,858,025**	**9,136,678**
Accumulated Depreciation							
At start of the year	20,288	703,259	370,914	1,027,934	1,273,870	317,245	3,713,510
Charge on disposal	-	-	(57,566)	-	-	-	(57,566)
Charge for the year	1,541	105,013	90,658	187,946	270,337	162,888	818,383
At year end	**21,829**	**808,272**	**404,006**	**1,215,880**	**1,544,207**	**480,133**	**4,474,327**
Year ended 31 December 2012							
COST							
At start of the year	115,841	1,573,906	671,724	1,945,801	2,971,381	1,858,025	9,136,678
Reclassification	4,740	-	-	-	-	(4,740)	-
Additions	67,659	67,441	218,757	357,396	282,771	249,109	1,243,132
Disposals	-	(2,866)	(97,676)	(27,147)	(78,377)	-	(206,065)
At year end	**188,240**	**1,638,481**	**792,805**	**2,276,050**	**3,175,775**	**2,102,395**	**10,173,745**
Accumulated Depreciation							
At start of the year	21,829	808,272	404,006	1,215,880	1,544,207	480,133	4,474,327
Reclassification	605	-	-	-	-	(605)	-
Disposals	-	(1,906)	(69,879)	(25,603)	(48,560)	-	(145,948)
Charge for the year	2,263	100,941	91,165	318,378	307,042	181,007	1,000,796
At year end	**24,697**	**907,307**	**425,292**	**1,508,655**	**1,802,689**	**660,535**	**5,329,175**
NET BOOK VALUE							
At 31 December 2012	**163,543**	**731,174**	**367,513**	**767,395**	**1,373,086**	**1,441,860**	**4,844,570**
At 31 December 2011	94,012	765,634	267,718	729,921	1,427,173	1,377,892	4,662,350

16 Intangible assets (computer software)

	2012 Shs '000	2011 Shs '000
COST		
At start	1,698,822	1,505,249
Additions	247,532	193,574
At year end	**1,946,354**	**1,698,823**
Accumulated Depreciation		
At start	1,212,416	999,511
Charge for the year	228,847	212,906
At year end	**1,441,263**	**1,212,417**
At 31 December	**505,091**	**486,406**

17 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2011: 30%). The movement on the deferred income tax account is as follows:

	2012 Shs '000	2011 Shs '000
At start of period	63,246	(155,241)
Income statement charge (Note 10)	(361,074)	218,487
At end of period	**(297,828)**	**63,246**

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

Period ended 31 December 2012	**At start of period Shs '000**	**Credited/ (charged) to profit and loss account Shs '000**	**At end of period Shs '000**
Deferred income tax liabilities			
Property and equipment	**913,375**	**87,464**	**1,000,839**
Deferred income tax assets			
Provisions for impairment	(164,886)	(66,636)	(231,522)
Provision for gratuity	(392,066)	344,696	(47,370)
Capital grants	(118,772)	4,271	(114,501)
Leave provision	(166,605)	142,138	(24,467)
Provision for legal costs	(7,800)	-	(7,800)
Trading Loss	-	(873,007)	(873,007)
	(850,129)	**(448,538)**	**(1,298,667)**
Net deferred income tax liability/(asset)	**63,246**	**(361,074)**	**(297,828)**

17 Deferred income tax

Year ended 31 December 2011	At start of period Shs '000	Charged/ (credited) to P/L Shs '000	At end of period Shs '000
Deferred income tax liabilities			
Property and equipment	**744,816**	**168,559**	**913,375**
Deferred income tax assets			
Tax losses	(157,465)	157,465	-
Provisions for impairment	(139,657)	(25,229)	(164,886)
Provision for gratuity	(289,621)	(102,445)	(392,066)
Capital grants	(155,881)	37,109	(118,772)
Leave provision	(157,433)	(9,172)	(166,605)
Provision for legal costs	-	(7,800)	(7,800)
Other deductible temporary differences	-	-	
	(900,057)	**49,928**	**(850,129)**
Net deferred income tax (liability)/asset	**(155,241)**	**218,487**	**63,246**

18(a) Customer deposits

	2012 Shs '000	2011 Shs '000
	23,734,291	20,321,786
Savings accounts	8,717,252	5,531,492
Fixed deposit accounts	32,451,543	25,853,278

18(b) Loan gurantee fund

Individuals	382,828	371,828
Groups	107,321	94,708
	490,149	**466,536**

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% (2011: 10%) of the principal amount for the loans disbursed. The loan guarantee fund for loans above Shs 1 million is optionally held as a fixed deposit for the period equivalent to the loan period.

19 Bank overdraft

	2012 Shs '000	2011 Shs '000
Citibank Uganda Limited	3,052,122	101,867
Bank of Africa	491,842	-
Centenary Bank	-	42,654
	3,543,964	**144,521**

The overdraft facility from Citibank is in two tranches ie shs 1.5bn and shs 2.5bn. The shs 1.5bn facility was secured in September 2007 for a period of one year but renewable on expiry at a rate of 21.0% while that of shs 2.5bn was secured on 28th Dec 2012 for a period of four months at a rate of 21.0%. The two facilities are secured by 120% of the company's performing portfolio.

The facility from Bank of Africa of shs 550m was secured on 31st October 2012 for a period of 5 months at a rate of 22.0% and is secured by 150% of the company's performing portfolio.

20 Other liabilities

	2012 Shs '000	2011 Shs '000
Un-cleared cheques	75,217	67,104
Sundry creditors	859,461	984,344
Insurance payable	50,294	50,269
NSSF contributions payable	110,857	84,090
PAYE payable	216,609	153,521
Withholding tax payable	28,845	51,464
Stamp duty	5,848	21,038
Other tax payables	85	-
Deferred loan arrangement fees	1,383,141	965,523
	2,730,358	**2,377,353**

21 Borrowed funds

	2012 Shs '000	Rate (%)	2011 Shs '000	Rate (%)
Triodos International Fund Management	2,000,000	16.02	2,231,586	18.8
Triodos International Fund Management	2,000,000	19.02	2,000,000	21.8
DFCU Bank Limited	-	-	347,357	13.5
Stromme	1,584,226	15.5	-	
Stromme	1,000,000	18.0	-	
Citibank Uganda Limited	-	-	2,773,695	16.28
Bank of Africa	405,728	22.0	1,222,222	13
Blue Orchard	923,813	13.9	1,850,530	16.85
NMI Frontier Funds KS	594,140	13.0	1,378,788	13
Agribusiness Initiative	2,000,000	15.0	-	
Micro Finance Support Center	2,000,000	13.0	-	
Centenary Bank	1,191,620	12.9	-	
	13,699,527		**11,804,178**	

The table below shows the movements of borrowed funds:

	2012 Shs '000	2011 Shs '000
At start of period	**11,804,178**	14,185,103
Add: Receipts	**7,500,000**	-
Less: Payments made	**(5,604,651)**	(2,380,925)
At end of period	**13,699,527**	11,804,178

(i) The Company holds two facilities from Triodos International Fund Management i.e. a loan facility of Shs 2 billion and subordinated debt of Shs 2 billion.

The loan facility of shs 2.0 billion was renewed for another 12 months period up to 31st December 2013 and is charged interest at the 91 day treasury bill rate plus 6% subject to a minimum rate of 16%, maximum of 20% and secured by first cession of the advances to micro entrepreneurs to the minimum amount of 125% of the loan facility and matures on 17 December 2013.

The subordinated debt will come to term in October 2019, it is unsecured and attracts interest at the higher of 16% and the rate on 91 day treasury bill plus 9 percent per annum plus a premium determined on a scale depending on the Company's return on average equity.

(ii) The facility from NMI Frontier Funds of Shs 2.250 billion was acquired on 22 September, 2010 for three years and is charged interest at a fixed rate of 13% per annum. The facility is secured with customer loan portfolio of 1.25 times of outstanding facility.

(iii) The Bank of Africa loan of Shs 2 billion was acquired on 10 August 2009 for a period of three years and is charged interest at a rate of 13%. The facility is secured with a parri passu debenture charge on the companies performing loan portfolio.

(iv) The Blue Orchard loan of 2.3 billion was acquired on 21 December 2010. It is charged interest at the rate of 91-Day Treasury bill rate plus 4% paid quarterly and principle semiannually. The loan is secured with customer loan portfolio of 1.25 times of the outstanding facility.

(v) The centenary bank loan of shs 1.5bn was acquired on 02nd of August 2012 for a period of one year. It is charged interest on the 91 days treasury bill rate plus 3% and payable on a quarterly basis. It is secured with a pari pasu debenture floating charge on the company's moveable assets & loan portfolio

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

(vii) 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

(viii) The company holds two facilities from Stromme Microfinance East Africa, ie, a loan facility of 2.0bn and another of1.0bn.

The facility of Ushs 2.0bn was acquired on 29th February 2012 for a period of 1 year. It is secured by 150% of the company's high quality portfolio and it is payable on a quarterly basis. It is charged interest on the 91day T-bill rate but not lower than 16%

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

22 Designated funds

	ABI	UNCDF Shs'000	2012 Total Shs'000	2011 Total Shs'000
At start of period	-	306,976	306,976	24,180
Receipts	77,500	662,419	739,919	443, 211
Utilized	(35,025)	(394,340)	(429,365)	(160,415)
Transfer to capital grants	-	(105,485)	(105,485)	-
At end of period	**42,475**	**469,570**	**512,045**	**306,976**

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 662,419,000 from United Nations Capital Development Fund (UNCDF) under the Youth Start Program and shs 77,500,000 from Agricultural Business Initiative Trust (ABI Trust) under a project titled "Increasing access to financial services through product development and roll-out".

23 Related party transactions

Uganda Women Trust (UWT) owns 30% of the shares in the company whilst Oikocredit own 26.45%, Investors and Partners own 22.83%, Founder members 18.42%, Mathias Katamba 2.06% and Margaret Kedi 0.24%. Owing to this diverse ownership structure, the company has neither parent company nor controlling party.

	2012 Shs '000	2011 Shs '000
Amounts payable to related parties:		
UWT subordinated loan	671,264	693,801
UWT perpetual loan	334,306	323,935
Oikocredit	335,319	671,018
	1,340,888	**1,688,754**
Interest expense incurred on the above	**194,834**	**203,571**

The UWT perpetual loan was obtained for the purposes of on lending. The loan is interest free and is not secured. The funds were granted to UWT by Women's World Bank as part of their affiliate capitalization program.

The company obtained an unsecured subordinated note from the Uganda Women's Trust Limited on 1 May 2004 for a period of ten years. It is charged at the lower of 12% per annum or inflation.

The Oikocredit loan of shs 1.0 billion was acquired on 21st December 2010 for a period of three years. It is charged interest at the higher of 12% and the 182 day T-bill rate plus 5.25% adjusted every six months by the lender and is secured by a charge on the company's grade A portfolio ie loans that are current in their payments.

	2012 Shs 000	2011 Shs 000
Fees for services as director	**218,066**	**229,388**

24 Employee benefits provision

	Gratuity Shs '000	Leave Shs '000	Total Shs '000
Year ended 31 December 2011			
As at start of the year as previously stated	651,556	524,778	1,176,334
Prior year adjustment-pension & gratuity 2009	214,421	-	214,421
Prior year adjustment-pension & gratuity 2010	99,440	-	99,440
aAs at start of the year as restated	965,417	524,778	1,490,195
Charge for the year as restated	605,518	522,108	1,127,626
Provisions released	-	(413,003)	(413,003)
Reduction due to payments/utilization	(264,049)	(78,532)	(342,581)
AAS at 31December 2011	**1,306,886**	**555,351**	**1,862,237**

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

25 Capital grants

	MOP	BOU	PSFU	Population council	GTZ /SIDA	USAID	UNCDF	Total
Year ended 31 December 2012								
	Shs '000	Shs'000	Shs'000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
At start of year	291,589	20,401	30,066	30,617	11,774	11,459		395,906
From designated funds	-	-	-	-	-	-	105,485	105,485
Profit and loss credit	(76,814)	(6,800)	(10,010)	(6,191)	(2,355)	(745)	(16,808)	(119,722)
At end of year	**214,775**	**13,601**	**20,056**	**24,426**	**9,419**	**10,715**	**88,677**	**381,670**
Year ended 31 December 2011								
At start of year	377,312	30,600	45,072	38,730	14,717	13,172	-	519,603
Profit and loss credit	(85,723)	(10,199)	(15,006)	(8,113)	(2,943)	(1,713)	-	(123,697)
At end of year	**291,589**	**20,401**	**30,066**	**30,617**	**11,774**	**11,459**	-	**395,906**

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

The company was awarded the following grants;

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

26 Share capital

	2012 Shs'000	2011 Shs'000
Authorized Share capital		
30,000 million ordinary shares (2011: 6,000 million) of Shs 1,000 each	**30,000,000**	**6,000,000**
Issued and fully paid		
At 1 January 2012 and 31 December 2011	**5,868,500**	**5,868,500**
Bonus shares issued during the year from retained earnings	2,716,902	-
At 31 December 2012	**8,585,402**	**5,868,500**

At the shareholders` meeting held on 28th March 2012, it was resolved that the authorized share capital of the company be increased to 30,000 million (2011: 6,000 million ordinary shares) of Shs 1,000 each. A bonus issue of Shs. 2.7 billion was applied to increase the issued and fully paid up share capital to Shs. 8.5 billion in 2012. The increase in authorised share capital was to comply with Bank of Uganda`s minimum level of capital as the company prepares to acquire a commercial bank license.

27 Regulatory reserve

	2012 Shs '000	2011 Shs '000
At start of year	464,814	358,683
Transfer from retained earnings	115,638	106,131
At end of year	**580,452**	**464,814**

The regulatory 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. The reserve is not distributable.

28 Proposed dividend

No interim dividend was paid during the year (2011: nil) the directors do not recommend a dividend in respect of the year ended 31 December 2012 (2011: nil).

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

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

	2012 Shs '000	2011 Shs '000
Cash and Bank Balances (Note 11)	8,008,757	3,816,479
Placements with other banks (Note 12)	519,662	2,187,451
Bank overdraft	(3,543,964)	(144,521)
	4,984,456	**5,859,409**

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

30 Contigent liabilities

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

As at 31st December, 2012, provisions amounting to Shs 26.0 million were made for such legal claims.

31 Lease arrangements

Operating lease commitments

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

	Shs'000	Shs'000
Not later than 1 year	1,280,967	1,097,898
Later than 1 year but less than 5 years	4,101,659	3,982,600
Later than five years	2,856,041	3,980,470
	8,238,667	**9,060,968**

Finance Lease

During the period, the company acquired a motor vehicle under a finance lease arrangement with DFCU. The total of future minimum lease payments under the non-cancellable finance lease is as follows:

	2012 Shs'000
Not later than 1 year	40,473
Later than 1 year but less than 5 years	80,946
Later than five years	-
	121.419
Present value of future minimum lease payments	**76,457**

YOUR NOTES:

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Trust Agro-Financing

Agro - Marketing Loan

The Finance Trust Agro–Marketing Loan is an affordable loan given to clients who buy and sell agricultural products, veterinary drugs, milk coolers, milk cans, branding materials, etc. This loan is offered to individuals, joint, partnerships, groups, associations and companies dealing in agricultural marketing.

Benefits

- Increase your working capital
- Pay loan in small manageable instalments
- Enjoy low interest rates
- Pay loan over a long period of time
- Farmers in groups can get up to 4 million per farmer
- Grace period
- Purchase business assets like cars, milk coolers, branding materials etc

FINANCE trust

Let's Grow

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