OPPORTUNITY BANK UGANDA LIMITED
Annual Report and Financial Statements
For the year ended 31 December 2018

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Corporate information

REGISTERED OFFICE

Plot 1259, Old Kira Road
P. O. Box 33513
Kampala.

COMPANY SECRETARY

Mr. Sulaiman Kikabi
Opportunity Bank Uganda Limited
Plot 1259, Old Kira Road
P. O. Box 33513
Kampala.

AUDITORS

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

LAWYERS

M/s Ligomarc Advocates
5th Floor, Western Wing
Social Security House, 4 Jinja Road
P. O. Box 8230
Kampala.

M/s Birungyi Barata & Company Advocates
Crusader House, 3rd Floor Annex
P. O. Box 21086
Kampala.

Nambogo & Company Advocates
4th Floor Suite B-4
Plot 26 Buganda Road, Park Royal Building
P.O. Box 9071
Kampala.

MAIN CORRESPONDENT BANKS

Citibank Uganda Limited
Ternan Avenue
P. O. Box 7505
Kampala.

Stanbic Bank Uganda Limited
45 Kampala Road
P. O. Box 7131
Kampala.

dfcu Bank Limited
Plot 26 Kyadondo Road, Nakasero
P. O. Box 70
Kampala.

Diamond Trust Bank Uganda Limited
DTB Centre
Plot 17/19, Kampala Road
Kampala.

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of Opportunity Bank Uganda Limited ('the Company').

PRINCIPAL ACTIVITIES

The Company's principal activity is disbursing loans to individuals, micro and small-scale entrepreneurs in the informal sector of the Ugandan economy. The Company is licensed by Bank of Uganda as a tier II financial institution.

The license allows the Company to transact financial institutions business as a credit institution under the Financial Institutions Act (FIA). In addition to the existing products and services the license allows the Company, to accept and receive call and time deposits repayable after a fixed period or after notice.

RESULTS AND DIVIDENDS

The profit for the year ended 31 December 2018 is Shs 4.4 billion (2017: Shs 2.2 billion). The directors do not propose the payment of dividends for the year (2017: Nil).

DIRECTORS

The directors who held office during the year and to the date of this report are as shown below;

BOARD OF DIRECTORS

Mr. Phillip Karugaba	-	Chairman
Mr. Tineyi Mawocha	-	Chief Executive Officer
Mr. Christopher Geriga	-	Executive Director
Mr. Mark Horwood	-	Non-Executive Director
Mr. Stanely Tsikirayi	-	Non-Executive Director
Mr. Mark Vivier	-	Non-Executive Director
Mr. Leendert Steffen	-	Non-Executive Director
Mr. Ken Wathome	-	Non-Executive Director
Mrs. Sarah Nassozi Kiwanuka	-	Non-Executive Director
Mrs. Winnie Lawoko-Olwe	-	Non-Executive Director
Mrs. Jacqueline Kobusingye Opondo	-	Non-Executive Director

AUDITOR

The Company's auditor, PricewaterhouseCoopers Certified Public Accountants continues in office in accordance with the provisions of Section 167(2) of the Ugandan Companies Act and Section 62 (3) of the Financial Institutions Act.
By order of the Board

Secretary

26 March 2019

Statement of Director's Responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act and the Financial Institutions Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit in accordance with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act and the Financial Institutions Act.

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors have also assessed the Company's ability to continue as a going concern and hereby do report that nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

Director | Director | Director

26 March 2019

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF OPPORTUNITY BANK UGANDA LIMITED

Report on the audit of the financial statements

Our opinion

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

What we have audited

Opportunity Bank Uganda Limited's financial statements set out on pages 9 to 59 comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

Key audit matter

The key audit matter described below is that which, in our professional judgment, is of most significance in our audit of the financial statements of the Company for the year ended 31 December 2018. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and as such we do not provide a separate opinion on the matter.

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Partners C Mpobusingye D Kalemba F Kamulegeya P Natamba U Mayanja

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF OPPORTUNITY BANK UGANDA LIMITED (CONTINUED)

Report on the audit of the financial statements (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances As disclosed in Notes 15 and 32 of the financial statements, the Directors have estimated provisions for impairment of loans and advances of Shs 3,020 million at 31 December 2018 (1 January 2018: Shs 1,322 million). The Directors exercised significant judgment in estimating expected credit losses over the remaining lifetime of loans and advances whose credit risk increased significantly since origination and loans in default; and, for the next 12 months for all other loans and advances. Significant management judgement has been exercised in defining default and significant increase in credit risk as well as the estimation processes for the components of expected credit losses including: probabilities of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). This was an area of focus for our audit in lieu of significant management judgement involved as set out above. In particular we focused on: • The appropriateness of the methodology used to estimate the components of expected credit losses, being PD, LGD and EAD for consistency with IFRS 9; • the relevance and application of historical and forward looking data used to estimate probabilities of default; • the reasonableness of the timing and amount of the present value of expected future cash flows on loans and advances, which is the key driver for LGD; and • the estimates made by management in deriving EAD for on and off statement of financial position exposures.	*Our audit procedures are summarised as follows:* We evaluated the appropriateness of the methodology applied by management in the calculation of expected credit losses for consistency with IFRS 9; We validated management controls over the staging of loans and advances between default (Stage 3), significant increase in credit risk (Stage 2) and others (Stage 1); We evaluated the appropriateness of segmentation of the loan portfolio for purposes of estimating PDs; We tested, on a sample basis, the reasonableness of PDs used by management as well as the accuracy of the underlying historical data applied by management in deriving PDs; We reviewed the suitability of forward looking data used in estimating PDs together with the accuracy of its application in the PD estimation process; We tested, on a sample basis, the reasonableness of the present values of expected future cash flows of loans and advances used by management in the calculation of LGD; and We recomputed, on a sample basis, expected credit losses for loans and advances and assessed the overall reasonableness of provisions for loans and advances made by management as at 1 January and 31 December 2018.

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF OPPORTUNITY BANK UGANDA LIMITED (CONTINUED)

Report on the audit of the financial statements (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the financial statements

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

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

The Directors are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF OPPORTUNITY BANK UGANDA LIMITED (CONTINUED)

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

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

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

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

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF OPPORTUNITY BANK UGANDA LIMITED (CONTINUED)

Report on legal and other regulatory requirements

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is CPA Uthman Mayanja- P0181.

Certified Public accountants
Kampala

CPA Uthman Mayanja

2 May 2019

Statement of comprehensive income

	Note	2018 Shs '000	2017 Shs '000
Interest income	4	30,560,971	21,632,778
Interest expense	5	(5,843,893)	(2,910,745)
Net interest income		24,717,078	18,722,033
Fees and commission income	6	3,328,179	2,715,756
Net foreign exchange loss	7	(20,396)	(45,083)
Other income	8	2,102,575	1,543,787
Total income before credit impairment charge		30,127,436	22,936,493
Impairment charge on other financial assets	13 & 14	(142,674)	-
Impairment charge on loans and advances	15	(1,383,173)	(1,310,027)
Total income after credit impairment charge		28,601,589	21,626,466
Employee benefits expenses	9	(10,589,966)	(9,404,178)
Administrative expenses	10	(10,738,580)	(7,805,085)
Depreciation and amortisation	17 & 19	(1,638,241)	(1,327,674)
Profit before income tax		5,634,802	3,089,529
Income tax expense	11	(1,196,918)	(858,779)
Profit for the year		4,437,884	2,230,750
Other comprehensive income			
Revaluation of land and buildings		1,400,475	-
Deferred Tax on revaluation		(420,142)	-
Total Other comprehensive income		980,333	-
Total comprehensive income for the year		5,418,217	-
Earnings per share basic and diluted (Shs)	29	90.14	45.31

Statement of financial position

	Note	2018	2017 Restated	2016 Restated
		Shs '000	Shs '000	Shs '000
Assets				
Cash and bank balances	12	**9,475,198**	7,237,097	4,296,622
Balances held with other financial institutions	13	**10,272,289**	17,504,998	19,270,096
Investment Securities	14	**3,852,449**	-	-
Loans and advances to customers	15	**90,466,033**	57,005,269	42,003,004
Other assets	16	**3,859,086**	3,963,855	3,100,959
Property and equipment	17	**11,637,569**	7,300,644	5,774,013
Intangible assets	19	**2,653,107**	173,072	395,358
Deferred income tax asset	18	**117,820**	-	-
Total assets		**132,333,551**	93,184,935	74,840,052
Equity and liabilities				
Liabilities				
Bank overdraft	12	**2,344,702**	-	3,434,545
Collateral loan security fund	20	**5,533,613**	4,115,227	4,315,346
Customer deposits	21	**59,986,960**	39,730,405	21,695,920
Other liabilities	22	**8,139,372**	5,636,910	6,524,968
Borrowings	24	**19,824,946**	10,123,918	4,737,017
Deferred grant income	25	**2,316,037**	4,669,804	7,875,849
Current income tax payable	11	**1,720,805**	20,502	-
Deferred income tax liability	18	-	852,985	451,973
Total liabilities		**99,866,435**	65,149,751	49,035,618
Equity				
Share capital	26	**9,846,294**	9,846,294	9,846,294
Share premium	26	**11,992,536**	11,992,536	11,992,536
Regulatory credit risk reserve	28	**1,003,040**	777,900	326,543
Revaluation reserve	27	**2,590,312**	1,609,979	1,609,979
Retained earnings		**7,034,934**	3,808,475	2,029,082
Total equity		**32,467,116**	28,035,184	25,804,434
Total equity and liabilities		**132,333,551**	93,184,935	74,840,052

The financial statements on pages 9 to 59 were approved by the Board of Directors on 26 March 2019 and signed on its behalf by:

Director **Director** **Director**

Statement of changes in equity

	Notes	Share capital Shs'000	Share premium Shs'000	Regulatory reserve Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2017							
At 1 January 2017 - as previously stated		9,846,294	11,992,536	326,543	1,609,979	2,743,727	26,519,079
Effect of prior year adjustment	30	-	-	-	-	(714,645)	(714,645)
At 1 January 2017 – as restated		9,846,294	11,992,536	326,543	1,609,979	2,029,082	25,804,434
Comprehensive income:							
Profit for the year		-	-	-	-	2,230,750	2,230,750
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	2,230,750	2,230,750
Transfer to regulatory reserve	28	-	-	451,357	-	(451,357)	-
At end 31 December 2017		9,846,294	11,992,536	777,900	1,609,979	3,808,475	28,035,184
Year ended 31 December 2018							
At start of year, as previously stated		9,846,294	11,992,536	777,900	1,609,979	4,523,120	28,749,829
Effect of prior year adjustment		-	-	-	-	(714,645)	(714,645)
IFRS9 first time adoption adjustment		-	-	-	-	(986,285)	(986,285)
At start of year, as restated		9,846,294	11,992,536	777,900	1,609,979	2,822,190	27,048,899
Profit for the year		-	-	-	-	4,437,884	4,437,884
Other comprehensive income		-	-	-	980,333	-	980,333
Total comprehensive income		-	-	-	980,333	4,437,884	5,418,217
Transactions with owners:							
Transfer to regulatory reserve	28	-	-	225,140	-	(225,140)	-
At end of year		**9,846,294**	**11,992,536**	**1,003,040**	**2,590,312**	**7,034,934**	**32,467,116**

Statement of cash flows

	Note	2018 Shs '000	2017 Shs '000
Cash flow from operating activities			
Interest receipts	4	**30,560,971**	21,632,778
Interest repayments	5	**(5,843,893)**	(2,910,745)
Net fees and commission receipts	6	**3,328,179**	2,715,756
Other income received	8	**2,156,485**	1,497,577
Payments to suppliers and employees	9&10	**(21,328,546)**	(17,209,263)
Income tax paid	11	**(887,563)**	(437,265)
Cash flow from operating activities before changes in operating assets and liabilities		**7,985,633**	5,288,838
Changes in operating assets and liabilities			
Government and other securities	14	**(3,891,363)**	-
Loans and advances to customers	15	**(35,830,221)**	(16,312,292)
Other assets	16	**104,769**	(862,896)
Deposits with other financial institutions	13	**7,128,949**	1,765,098
Customer deposits	21	**21,674,941**	17,834,366
Other liabilities	22	**2,502,461**	(888,058)
Deferred grant income	25	**(2,353,768)**	(3,206,045)
Net cash flows (used in)/from operating activities		**(2,678,599)**	3,619,011
Cash flow from investing activities			
Purchase of property and equipment	17	**(4,552,932)**	(2,634,184)
Purchase of intangibles assets	19	**(2,582,998)**	-
Proceeds from disposal of property and equipment		**6,900**	3,292
Net cash flows used in investing activities		**(7,129,030)**	(2,630,892)
Cash flows from financing activities			
Proceeds from borrowings	24	**19,485,437**	7,681,253
Repayment of borrowings	24	**(9,784,409)**	(2,294,352)
Net cash flows generated from financing activities		**9,701,028**	5,386,901
(Decrease)/increase in cash and cash equivalents		**(106,601)**	6,375,020
At start of the year	12	**7,237,097**	862,077
At end of the year	12	**7,130,496**	7,237,097

Notes

1 General information

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

Plot 1259,Old Kira Road
P.O. Box 33513
Kampala, Uganda

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

2 Significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Uganda Shillings (Shs), rounded to the nearest thousands, except when otherwise indicated.

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

(b) Changes in accounting policy and disclosures

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

IFRS 9: Financial Instruments

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

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Company has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

The effect of presentation changes at 1 January 2018 is included in the reconciliation set out in Note 32 and comparatives have not been restated.

The classification categories applied to the Company's financial assets and liabilities are set out in Note 2 (c) of these financial statements.

Notes (continued)

2 Significant accounting policies (continued)

(b) Changes in accounting policy and disclosures (continued)

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

IFRS 15 Revenue from contracts with customers

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

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when the Company will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

There was no material impact of application of IFRS 15 and no adjustment to retained earnings was required.

New and amended standards and interpretations effective and not yet adopted

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

At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Management has commenced IFRS 16 readiness activities in preparation for the first time adoption of the standard as at 1 January 2019. The Company's existing leases as at 31 December 2018 relate to branches 'premises with a term of a maximum of 6 months subject to renewal.

The Company does not anticipate any changes to its accounting treatment of assets where it acts as lessor given that IFRS 16 does not change the accounting by lessors.

The Directors anticipate that the Company will adopt a modified retrospective approach in adoption of IFRS 16. In this approach, the Company will not have to recast comparative financial information.

IFRIC 23 'Uncertainty over income tax treatments'. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment.

Notes (continued)

2 Significant accounting policies (continued)

(b) Changes in accounting policy and disclosures (continued)

New and amended standards and interpretations effective and not yet adopted (continued)

If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, relating to:

a) judgments made;
b) assumptions and other estimates used; and
c) potential impact of uncertainties not reflected.

The new interpretation is effective for annual periods beginning on or after 1 January 2019.

The Company expects that the adoption of the interpretation will simplify its approach for accounting for uncertain tax positions and enhance related disclosures.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19 clarifies that:

- On amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and

- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The adoption of this standard will not have an impact on the financial statements of the Company.

The following are IFRSs or IFRIC interpretations that are not yet effective that are not expected to have a material impact on the Company.

- IFRS 17 Insurance Contracts
- IAS 1 and IAS 8 Definition of Material
- Prepayment features with negative compensation (amendments to IFRS 9)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Annual improvement cycle (2015 – 2017)

  - Amendments to IFRS 3:Business Combinations regarding Definition of a Business
  - IAS 12 Income taxes
  - IAS 23 Borrowing costs

Notes (continued)

2 Significant accounting policies (continued)

(c) Financial instruments

Financial assets

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Company calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Financial assets, except for POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Company's policy is to recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Financial assets that are not 'POCI' but have subsequently become credit-impaired ("stage 3 "), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Measurement methods

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions.

Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 15, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

Notes (continued)

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

Financial assets (continued)

Measurement methods

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss; and

b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(i) Classification and subsequent measurement

From 1 January 2018, the Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Company's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 32. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Notes (continued)

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

Financial assets (continued)

Debt instruments (continued)

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

At 31 December 2018 the Company held government securities, loans and advances to customers, deposits and balances with other banks and cash and balances with Bank of Uganda which are all classified as financial assets at amortised cost. Customer deposits, bank overdraft, collateral loan security fund, borrowings and other liabilities are classified as financial liabilities at amortised cost.

The classification categories applied to the Company's financial assets and financial liabilities are set out on page 21 of these financial statements.

(i) Business model

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL.

Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

(ii) *Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI).*

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the `SPPI test').

In making this assessment, the Company considered whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(iii) Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') associated with its financial assets carried at amortised cost. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

Notes (continued)

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

Financial assets (continued)

(iii) Impairment (continued)

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 3 and 32 provides more detail of how the expected credit loss allowance is measured.

(iv) Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

(v) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control. The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

Notes (continued)

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

Financial assets (continued)

(v) Derecognition other than on a modification (continued)

Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

(vi) Write-off policy

The Company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 has been disclosed under Note 15. The Company still seeks to recover amounts it is legally owed in full, but which have been written off due to no reasonable expectation of full recovery.

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished.

The exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Loan commitments

Loan commitments provided by the Company are measured as the amount of the loss allowance. The Company has not provided any commitment to provide loans at a below-market interest rate (with the exception of staff loans), or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments the loss allowance is deducted from loans and advances to customers. For contracts that include both a loan and an undrawn commitment, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan.

Notes (continued)

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

The following table shows the reconciliation of the statement of financial position between the measurement categories in accordance with IAS 39 and IFRS 9 for the Company's financial assets and financial liabilities as at 31 December 2017:

	IAS 39 Measurement categories	IFRS 9 measurement categories	IAS 39 carrying amount at 31 December 2017	Changes in classification	Impairment change	IFRS 9 carrying amount at 1 January 2018
Assets			Shs' 000	Shs' 000	Shs' 000	Shs' 000
Cash and bank balances	Amortised cost	Amortised cost	7,237,097	-	-	7,237,097
Balances held with other financial institutions	Amortised cost	Amortised cost	17,504,998	-	-	17,504,998
Loans and advances to customers	Amortised cost	Amortised cost	57,005,269	-	(986,285)	56,018,984
Other assets	Amortised cost	Amortised cost	3,963,855	-	-	3,963,855
Property and equipment	N/A	N/A	7,300,644	-	-	7,300,644
Intangible assets	N/A	N/A	173,072	-	-	173,072
Total Assets			93,184,935	-	(986,285)	92,198,650
Liabilities						
Collateral loan security fund	Amortised cost	Amortised cost	4,115,227	-	-	4,115,227
Customer deposits	Amortised cost	Amortised cost	39,730,405	-	-	39,730,405
Other liabilities	Amortised cost	Amortised cost	5,636,910	-	-	5,636,910
Borrowings	Amortised cost	Amortised cost	10,123,918	-	-	10,123,918
Deferred grant income	Amortised cost	Amortised cost	4,669,804	-	-	4,669,804
Current income tax payable	N/A	N/A	20,502	-	-	20,502
Deferred income tax liability	N/A	N/A	852,985	-	-	852,985
Total liabilities			65,149,751	-	-	65,149,751

Notes (continued)

2 Significant accounting policies (continued)

(c) Financial Instruments (continued)

Equity	IAS 39 Measurement categories Shs' 000	IFRS 9 measurement categories Shs' 000	IAS 39 carrying amount at 31 December 2017 Shs' 000	Changes in classification Shs' 000	IFRS 9 remeasurement including expected credit losses Shs' 000	IFRS 9 carrying amount at 1 January 2018 Shs' 000
Share capital	Equity	N/A	9,846,294	-	-	9,846,294
Share premium	N/A	N/A	11,992,536	-	-	11,992,536
Regulatory credit risk reserve	N/A	N/A	777,900	-	-	777,900
Revaluation reserve	N/A	N/A	1,609,979	-	-	1,609,979
Retained earnings	N/A	N/A	3,808,475		(986,285)	2,822,190
			28,035,184		(986,285)	27,048,899
			93,184,935		(986,285)	92,198,650

Notes (continued)

2 Significant accounting policies (continued)

(d) Functional and presentation currency

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

(e) Revenue recognition

(i) Net interest income

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate, transaction costs and other premiums and discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability

(ii) Fees and commission income

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

(f) Translation of foreign currencies

Transactions in foreign currencies are translated into Uganda shillings at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date.

Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Notes (continued)

2 Significant accounting policies (continued)

(g) Property and equipment

Items of property and equipment are measured at cost or revalued amounts less accumulated depreciation and any accumulated impairment losses.

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

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

Management and directors review the residual values, useful lives and methods of depreciation of property and equipment at each financial year end and adjust them prospectively, if appropriate.

Leasehold land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. However, increases are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss. Decreases that offset previous increase of the same asset are charged against the revaluation reserve. All other decreases are charged to profit or loss.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The rates of depreciation used are as follows:

Buildings	-	50 years
Electrical office equipment	-	8 years
Computers and related equipment	-	3 years
Fixtures and fittings	-	5 years
Durable non-electronic equipment	-	8 years
Motor vehicles	-	4 years
Mobile phones	-	2 years

Leasehold improvements are amortised over the remaining lease term.

Notes (continued)

2 Significant accounting policies (continued)

(h) Contingent liabilities

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

(i) Dividends

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

(j) Leases

Where a significant portion of the risks and rewards of ownership are retained by the lessee, are classified as finance leases, otherwise operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

The cost of leasehold land is recorded as finance lease and amortised over the remaining lease term. The obligations associated with the minimum lease payments are all paid off upfront at inception of the lease in accordance with the local laws.

(k) Taxation

Current income tax

Income tax expense is the aggregate of the charge to profit or loss in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised directly in equity or other comprehensive income and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes (continued)

2 Significant accounting policies (continued)

(k) Taxation (continued)

Deferred income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(l) Post-employment benefits

Retirement benefits obligations

The Company's employees are eligible for retirement benefits under a defined contribution plan and is funded by contributions from both the Company and employees. The Company also contributes to the National Social Security Fund (NSSF). Contributions to the plan and NSSF are charged to profit or loss as incurred. Any difference between the charge to profit or loss and the contribution payable is recorded in the statement of financial position under other receivables or other payables.

Notes (continued)

2 Significant accounting policies (continued)

(m) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are represented by the above cash and Company balances and the overdraft.

(n) Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Company receives grants of non-monetary assets, the asset and the grant are recorded at fair value in the statement of financial position and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

3 Critical accounting estimates and judgements in applying accounting policies

The Company's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with International Financial Reporting Standards are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the Company's results and financial situation due to their materiality.

(a) Measurement of expected credit loss allowance

The measurement of expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 32.

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

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

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies

(b) Income taxes

The Company is subject to various government taxes under the Ugandan tax laws. Significant judgement is required in determining the provision for income taxes. Significant estimates and judgements are required in determining the provision for taxes on certain transactions. For these transactions, the ultimate tax determination is uncertain during the ordinary course of business.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. For more details on current and deferred income tax, refer to Notes 11 and 18.

4. Interest income

	2018 Shs '000	2017 Shs '000
Group loans	**9,464,264**	7,514,029
Individual loans	**18,507,890**	11,461,198
Staff loans	**263,658**	197,571
Balances held with other financial institutions	**2,325,159**	2,459,980
	30,560,971	21,632,778

5. Interest expense

	2018 Shs '000	2017 Shs '000
Interest on customer deposits	**3,526,730**	1,768,774
Loan arrangement fees	**379,836**	59,361
Interest on borrowings	**1,937,327**	1,082,610
	5,843,893	2,910,745

Notes (continued)

6. Fees and commission income

	2018 Shs '000	2017 Shs '000
Transaction fees – Deposit Accounts	1,773,207	1,492,675
Late repayment penalties fees – loans	923,313	701,152
Transaction fees – Money Remittances	631,659	521,929
	3,328,179	2,826,587

7. Net foreign exchange loss

Realised foreign exchange loss	(22,738)	(9,875)
Unrealised foreign exchange loss	2,342	(35,208)
	(20,396)	(45,083)

8. Other income

Miscellaneous income	856,075	396,654
Net grant income (Note 25)	1,246,500	1,147,133
	2,102,575	1,543,787

9. Employee benefit expenses

Salaries	8,680,341	7,659,670
NSSF employer contribution	860,422	740,128
Pension	635,592	481,908
Other staff costs	413,611	522,472
	10,589,966	9,404,178

10. Administrative expenses

Legal and consultancy fees	158,295	84,583
Auditor's remuneration	664,569	151,200
Travel expenses	935,171	990,961
Directors' fees	302,797	121,913
Board expenses	517,036	139,214
Business development	489,341	140,336
Operating lease expenses	1,128,348	1,692,661
Security costs	381,741	371,044
Occupancy costs	889,581	702,454
Purchase and supplies	893,570	619,975
IT Expenses	1,851,813	1,701,590
Insurance	394,863	263,593
Repairs and maintenance	115,705	116,653
Other expenses	2,015,750	708,908
	10,738,580	7,805,085

Notes (continued)

11. Income tax expense

	2018 Shs '000	2017 Shs '000
Current income tax expense	2,587,866	457,767
Deferred income tax expense/(credit) (Note 18)	(1,390,948)	401,012
Income tax expense	1,196,918	858,779

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

	2018 Shs '000	2017 Shs '000
Profit before income tax	5,634,802	3,089,529
Tax calculated at 30% (2017:30%)	1,690,441	926,859
Tax effect of expenses not deductible	(464,041)	(91,957)
Effect of income charged at 20%	(29,482)	-
Prior year deferred tax under/(over) provision	-	23,877
	1,196,918	858,779

The movement in the current income tax payable is set out below:

	2018	2017
At start of year	20,502	-
Charge for the year	2,587,866	457,767
Income tax paid	(865,063)	(437,265)
Income tax withheld at source	(22,500)	-
At end of year	1,720,805	20,502

12. Cash and bank balances

	2018	2017
Cash in hand	4,577,382	2,366,411
Cash at bank	3,608,786	3,583,002
Mobile money balances	1,289,030	1,287,684
	9,475,198	7,237,097

Bank overdraft

The Company has an overdraft facility with DFCU Bank Limited at an interest rate of 18.5% per annum and a limit of Shs 5.225 Million expiring on 7 March 2019 renewable on application. The overdraft facility is secured by a fixed deposit held with DFCU Bank Limited. The balance for the year ended 31 December 2018 was 2,345 Million (2017: Nil).

Notes (continued)

12. Cash and bank balances (continued)

Reconciliation to statement of cash flows

The above figures reconcile to the amount of cash and cash equivalents shown in the statement of cash flows as follows:

	2018 Shs'000	2017 Shs'000
Cash at bank and in hand	9,475,198	7,237,097
Bank overdraft	(2,344,702)	-
Cash and cash equivalents	7,130,496	7,237,097

13. Balances held with other financial institutions

Bank of Uganda security deposit	109,087	98,360
Fixed deposit balances maturing after 90 days	10,266,962	17,406,638
Allowance for impairment	(103,760)	-
	10,272,289	17,504,998

The weighted average effective interest rate on balances held with other financial institutions as at 31 December 2018 was 12% (2017: 13.4%).

14. Investment securities

	2018 Shs '000	2017 Shs '000
Treasury Bills	1,882,818	-
Treasury Bonds	2,008,545	-
Allowance for impairment	(38,914)	-
	3,852,449	-

15. Loans and advances

Group loans	17,758,283	14,391,377
Individual loans	73,663,873	42,873,516
Staff loans	2,064,026	1,062,031
Gross loans and advances	93,486,182	58,326,924
Less: expected credit loss impairment		
- Stage 3	(1,818,658)	-
- Stage 2	(127,126)	-
- Stage 1	(1,074,365)	-
-Individually assessed	-	(704,374)
-Collectively assessed	-	(617,281)
	90,466,033	57,005,269

The weighted average effective interest rates on loans and advances as at 31 December 2018 was 32% (2017: 35%).

Notes (continued)

15. Loans and advances (continued)

The table below details the movements in provisions for impairment of loan and advances.

	Stage 3 Shs '000	Stage 2 Shs '000	Stage 1 Shs '000	Total Shs '000
Year ended 31 December 2018 – IFRS 9				
At 31 December 2017	704,374	-	617,281	1,321,655
Re measurement on adoption of IFRS 9	889,728	80,656	15,901	986,285
At 1 January	1,594,102	80,656	633,182	2,307,940
Increase in provision for loan	1,339,642	46,470	441,183	1,827,295
Write-off	(1,115,086)	-	-	(1,115,086)
At 31 December	1,818,658	127,126	1,074,365	3,020,149

Year ended 31 December 2017 – IAS 39

	Individually assessed Shs '000	Collective Assessed Shs '000	Total provision Shs '000
At 1 January	651,955	459,732	1,111,687
Provision for loan impairment	1,596,062	157,549	1,753,611
Write-off	(1,543,643)	-	(1,543,643)
At 31 December	704,374	617,281	1,321,655

Impairment losses charged to profit or loss

The balances charged to the statement of comprehensive income are as follow:

	2018 Shs '000	2017 Shs '000
Increase in expected credit losses for loans and advances	1,827,295	1,753,611
Amounts recovered during the year	(444,122)	(443,584)
	1,383,173	1,310,027

Notes (continued)

16. Other assets

	2018 Shs' 000	2017 Shs' 000
Prepayments	2,531,124	2,616,718
Other receivables	1,106,445	1,334,332
Amounts due from related parties (Note 23 (a))	221,517	12,805
	3,859,086	3,963,855

Prepayments include rental prepayments for the various branch premises. The tenancy agreements range from a period of 1 to 5 years and are renewable at revised terms.

17. Property and equipment

The Company's land and buildings on Plot 7A Acacia Avenue Kampala and Plot 103 Lubanga Road.Mubende were revalued during the year by and independent professional valuer Ridgeline Group at an estimated open market value of 3,370 million for land and Shs 1,140 million for buildings.

If land was measured using the cost model, the carrying amount would be as follows:

	2018 Shs '000	2017 Shs '000
Cost	334,300	334,300
Accumulated depreciation	(89,649)	(84,668)
	244,651	249,632

Notes (continued)

17. Property and equipment (continued)

	Leasehold Land Shs'000	Buildings Shs'000	Computers Shs'000	Furniture fittings & equipment Shs'000	Motor vehicles Shs'000	Capital work in progress Shs'000	Total Shs'000
Cost or valuation							
At 1 January 2017	2,460,058	928,230	1,616,221	5,287,278	1,977,864	-	12,269,651
Additions	-	-	567,806	836,356	174,994	1,055,028	2,634,184
Transfers from WIP	-	-	2,858	625,699	-	(628,557)	-
Disposals	-	-	-	(31,451)	(9,177)	-	(40,628)
At 31 December 2017	2,460,058	928,230	2,186,885	6,717,882	2,143,681	426,471	14,863,207
Additions	-	-	399,706	1,625,488	214,449	2,313,289	4,552,932
Revaluation gain/(Loss)	1,091,863	308,612	-	-	-	-	1,400,475
Transfers from WIP	-	-	-	2,148,611	73,818	(2,222,429)	-
Capital items expensed	-	-	-	-	-	(81,204)	(81,204)
Disposals	-	-	(1,326,327)	(2,702,048)	(3,200)	-	(4,031,575)
At 31 December 2018	**3,551,921**	**1,236,842**	**1,260,264**	**7,789,933**	**2,428,748**	**436,127**	**16,703,835**
Depreciation							
At 1 January 2017	147,997	81,603	1,313,119	3,539,324	1,413,595	-	6,495,638
Charge for the year	33,923	15,239	179,981	592,616	283,629	-	1,105,388
Disposals	-	-	-	(29,286)	(9,177)		(38,463)
At 31 December 2017	181,920	96,842	1,493,100	4,102,654	1,688,047	-	7,562,563
Charge for the year	43,760	18,020	326,584	879,840	267,074	-	1,535,278
Disposals	-	-	(1,326,327)	(2,702,048)	(3,200)	-	(4,031,575)
At 31 December 2018	**225,680**	**114,862**	**493,357**	**2,280,446**	**1,951,921**	**-**	**5,066,266**
Netbook amount							
At 31 December 2018	**3,326,241**	**1,121,980**	**766,907**	**5,509,487**	**476,827**	**436,127**	**11,637,569**
At 31 December 2017	**2,278,138**	**831,388**	**693,785**	**2,615,228**	**455,634**	**426,471**	**7,300,644**

There are no contractual commitments for the acquisition of property and equipment (2017: Nil).

Notes (continued)

18. Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2017:30%). The movement on the deferred income tax account is as follows:

	2018 Shs '000	2017 Shs '000
At start of year	**852,985**	451,973
Charge to other comprehensive income	**420,143**	-
Charge to income statement	**(1,390,948)**	401,012
At end of year	**(117,820)**	852,985

The deferred income tax (assets)/liability is attributed to the following items:

	At start of year Shs '000	Charge to SCI Shs '000	At end of year Shs '000
Year ended 31 December 2018			
Deferred income tax liabilities			
Property and equipment	164,018	126,395	290,413
Revaluation surplus	689,990	420,142	1,110,132
Unrealised exchange differences	25,976	703	26,679
	879,984	547,240	1,427,224
Deferred income tax assets			
Other provisions	(26,999)	(1,518,045)	(1,545,044)
Net deferred income tax liability /(asset)	**852,985**	**(970,805)**	**(117,820)**
Year ended 31 December 2017			
Deferred income tax liabilities			
Property & equipment	243,319	(79,301)	164,018
Revaluation surplus	689,990	-	689,990
Unrealised exchange differences	36,539	(10,563)	25,976
	969,848	(89,864)	879,984
Deferred income tax assets			
Tax losses carried forward	(47,598)	47,598	-
Loan impairment provision	(46,379)	46,379	-
Provision for taxes on management fees	(423,898)	423,898	-
Other provisions	-	(26,999)	(26,999)
	(517,875)	490,876	(26,999)
Net deferred income tax liability	**451,973**	**401,012**	**852,985**

Notes (continued)

19. Intangible assets

	2018 Shs '000	2017 Shs '000
Cost		
At 1 January	2,502,944	2,502,944
Additions	2,582,998	-
At 31 December	5,085,942	2,502,944
Amortisation		
At 1 January	2,329,872	2,107,586
Charge for the year	102,963	222,286
At 31 December	2,432,835	2,329,872
Net book value	2,653,107	173,072

20. Collateral loan security fund

In accordance with the Company's loan policy, all group borrowers are required to pay 15% of the loan as security before the requested amount is approved. The amount is refunded to the customers upon repayment of the loan. The Company does not pay interest on loan security deposits.

	2018 Shs '000	2017 Shs '000
At start of the year	4,115,227	4,315,346
Increase/(decrease)	1,418,386	(200,119)
At end of year	5,533,613	4,115,227

21. Customer deposits

Ordinary savings accounts	22,754,658	19,699,431
Group savings accounts	1,363,918	1,180,326
Fixed deposits	34,036,420	17,877,733
Target savings	789,404	467,469
Accrued interest	1,042,560	505,446
	59,986,960	39,730,405

The weighted average effective interest rate on customer deposits at 31 December 2018 was 6.5 % (2017: 6.2 %).

22. Other liabilities

	2018 Shs' 000	*Restated 2017 Shs' 000	*Restated 2016 Shs' 000
Trade payables	2,649,477	2,070,722	1,440,536
Withholding tax payable	893,337	73,160	21,426
Due to related parties (Note 23)	98,573	374,418	744,201
Other payables and accruals	4,497,985	3,118,610	4,318,805
	8,139,372	5,636,910	6,524,968

Notes (continued)

23. Related parties

The ultimate parent company of the Company is MyBucks S.A, a Company incorporated in the Luxembourg. There are other companies which are related to Opportunity Bank Uganda Limited through common directorship or shareholdings. Transactions carried out with related parties and the related amounts are presented below:

(a) Amounts due from related parties

	2018 Shs '000	2017 Shs '000
Opportunity International USA	**221,517**	12,085

(b) Amounts due to related parties

	2018 Shs '000	2017 Shs '000
Opportunity International USA	**98,573**	374,418

The above transactions represent IT services and other expenses incurred by the Company on behalf of related parties and by the related parties on behalf of the Company.

Outstanding balances at the year-end are unsecured, interest free and settlements are in cash. There have been no guarantees received or provided for any related party receivables or payables. For the year ended 31 December 2018, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2017: Nil).

(c) Key management compensation

	2018 Shs '000	2017 Shs '000
Salaries and short term employment benefits	**2,301,306**	1,561,701
Post-employment benefits	**819,834**	293,550
	3,121,140	1,855,251
(d) Director's remuneration (included within key management)	**1,129,131**	940,751
(e) Staff loans and advances	**2,206,743**	1,124,381

Loans to the Company's staff are made at interest rates of between 0% and 15%. All loans to staff at 31 December 2018 and 31 December 2017 were performing. The collateral held for staff loans amounted to Shs 2.3 billion as at 31 December 2018 (2017: Shs 1.3 billion).

(f) Customer deposits

	2018 Shs '000	2017 Shs '000
Opportunity Bank Uganda Limited staff benefit scheme	-	1,465,577

Notes (continued)

24. Borrowings

	2018 Shs '000	2017 Shs '000
Stromme Microfinance East Africa	-	2,543,305
Opportunity International USA	**184,825**	549,443
Lend a Hand	**6,537,590**	1,024,266
aBi Finance Ltd	**4,743,504**	6,006,904
Symbiotics SA	**7,591,722**	-
Microfinance Support Centre (MSC)	**767,305**	-
	19,824,946	10,123,918

The movement of borrowings is analysed as below:

	2018 Shs '000	2017 Shs '000
At start of year	**10,123,918**	4,737,017
Additions	**17,598,101**	7,681,253
Interest expenses	**1,887,672**	1,082,610
Interest repayments	**(8,578,409)**	(1,082,610)
Principal repayments	**(1,206,336)**	(2,294,352)
At end of year	**19,824,946**	10,123,918

Summary of loan agreements

a) In 2017, the Company obtained a UGX denominated loan of Shs 6 billion from aBi Finance Limited at a fixed interest rate of 14% for a period of 5 years. The loan has a six months grace period on principal repayments. The loan is secured by a debenture over the Company's performing loan portfolio.

b) In 2017 and 2018, the Company obtained several Euro denominated loan portfolio financing of Shs 1 billion and 9 billion respectively from Lend a Hand at a fixed interest rate of 5.5% for a period of 1 year each.

c) In 2017, the Company obtained a USD denominated loan of USD 48,000 from Opportunity International at an interest of 2% for the period of 2 years. The Loan is secured by a promissory note.

d) In 2018, the Company obtained a UGX denominated loan of Shs 7.3 billion from Symbiotics at a fixed interest rate of 12% for a period of 2 years. The loan has a six months grace period on interest repayments. The repayment of principle will be made upon maturity and interest is paid on a semi-annual basis. The loan is secured by a promissory note

e) In 2018, the Company obtained a UGX denominated loan of Shs 1 billion from Microfinance Support Centre at a fixed interest rate of 9% for a period of 2 years. The loan has a six months grace period on both principal & interest repayments. The funds are to be utilised for group lending in Northern Uganda.

The weighted average effective interest rate on interest bearing loans at 31 December 2018 was 13% (2017: 17%).

Notes (continued)

25. Deferred grant income

	2018 Shs '000	2017 Shs '000
At start of the year	**4,669,804**	7,875,849
Additional grants in year	**2,211,615**	680,754
Utilised during the period	**(4,565,382)**	(3,886,799)
At end of year	**2,316,037**	4,669,804

The net grant income for the year is as analysed below:

	2018 Shs '000	2017 Shs '000
Grant income	**4,565,382**	3,886,799
Grant expenses	**(3,318,882)**	(2,739,666)
	1,246,500	1,147,133

The Company received grants from different donors for revenue and capital expenditure. As at 31 December 2018, the details of significant outstanding grants are summarised below;

(a) Shs 187 million balance on Master Card /Opportunity International for supporting the Company to extend a full range of financial services to the rural areas including collection of savings from customers and provision of comprehensive and crop specific agricultural loans to small holder farmers;

(b) John Deere grant of Shs 414 million for loan loss guarantee, motor vehicles, product development and lending to cocoa and coffee growers;

(c) Grants of Shs 119 million from Department for International Development(DFID) for the Empowerment for Girls Education (E.G.E) to increase access to education to marginalized girls through providing loans to low and medium cost private schools to expand and improve their services and provide scholarships to support marginalized girls to stay in school. It is also to support financial literacy programs to schools, parents and children through distribution of marketing material and education quality trainings;

(d) Grants of Shs 123 million from DFID for the Young Entrepreneurs program (YEP) for financial literacy sessions for parents and communities in schools in Mayuge and Iganga districts;

(e) Grants of Shs 846 million from Agricultural Business Initiative (aBi) Trust for promoting availability and use of financial services in Northern Uganda through branch and branchless delivery mechanisms for a period of 2 years;

(f) Grant of Shs 73 million from Water.org to support the demand for credit facilities for safe water and sanitation needs in both rural and urban areas in Uganda; and

(g) Grants of Shs 167 million from Opportunity International (Caterpillar DFS project) for digital financial services across all the branches of the Company.

Notes (continued)

26. Share capital and share premium

	Number of shares	Ordinary shares Shs '000	Share premium Shs '000
At 1 January 2017, December 2017 and 2018	49,231,466	9,846,294	11,992,536

The total authorised number of ordinary shares is 50,000,000 with a par value of Shs 200 per share. All issued shares are fully paid.

27. Revaluation reserve

The revaluation surplus relates to the surplus on the revaluation of leasehold land and buildings net of deferred income tax, and are non-distributable.

	2018 Shs '000	2017 Shs '000
At start of year	1,609,979	1,609,979
Revaluation surplus on land and buildings	1,400,476	-
Deferred tax	(420,143)	-
At end of year	2,590,312	1,609,979

28. Regulatory credit risk reserve

	2018 Shs '000	2017 Shs '000
Stage 3 (Note 15)	1,818,658	-
Stage 2 (Note 15)	127,126	-
Stage 1 (Note 15)	1,074,365	-
Specific provisions - IAS 39	-	704,374
General provisions – IAS 39	-	617,281
	3,020,149	1,321,655

Provisions as per FIA guidelines

	2018 Shs '000	2017 Shs '000
Specific provisions	3,144,931	1,859,280
General provisions	878,258	240,275
	4,023,189	2,099,555

The movement in the reserve was as follows:

	2018 Shs '000	2017 Shs '000
At start of year	777,900	326,543
Transfer (from) / to the regulatory reserve	225,140	451,357
At end of year	1,003,040	777,900

The regulatory credit reserve relates to excess of general and specific provisions for loans and advances done in accordance with the requirements of the Financial Institutions Act as compared to those per IFRS. Bank of Uganda regulations require that the excess is appropriated from retained earnings to a regulatory reserve. The regulatory reserve is not distributable to members.

Notes (continued)

29. Basic and diluted earnings per share

	2018	2017
Net income attributable to ordinary shareholders (Shs'000)	**4,437,884**	2,230,750
Number of ordinary shares in issue during the year	**49,231,466**	49,231,466
Basic and diluted earnings per ordinary share (Shs)	**90.14**	45.31

There were no potentially dilutive shares outstanding as at 31 December 2018 or 2017.

30. Effects of prior period adjustments

Management identified an excess in the brought forward amount of deferred fees and commissions of Shs 715 million relating to the period as of and prior to 31 December 2016.

This transaction has been treated as a material prior period error and has been corrected retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The impact of this correction on the years ended 31 December 2016 and 2017 is as follows:

- An increase in other liabilities balance by Shs. 715 million.; and
- A decrease in retained earnings balance by Shs 715 million.

31. Assets pledged as security

As at 31 December 2018 the Company had loans and advances amounting to Shs 5.7 billion (2017: Shs 7.2 billion) pledged as security for a borrowing of Shs 4.7 billion (2017: Shs 6 billion) due to aBi Finance Limited.

32. Financial risk and management objectives and policies

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Company does not hedge any of its risk exposures.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established various committees to oversee management of risks including; the Asset and Liability Committee (ALCO), Risk and Credit Committee, Risk Management Committee and Audit Committee.

The Company also has a Management ALCO and Management Credit Committee which are responsible for developing and monitoring the risk management policies in their specified areas. All board committees except the Audit Committee have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

Notes (continued)

32. Financial risk and management objectives and policies (continued)

Risk management framework (continued)

The Baord Risk and Credit Committee is responsible for monitoring compliance with the Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company. The Risk and Credit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(i) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company's customers, fail to fulfil their contractual obligations to the Company. Credit risk arises mainly from consumer loans and advances, deposits with other financial institutions and government securities.

The Credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors and to the Management Executive Committee "Exco".

The Company's maximum exposure to credit risk before collateral held is as follows:

	2018 Shs '000	2017 Shs '000
Cash at bank and mobile money (Note 12)	**4,897,816**	4,870,686
Balances held with Banks and other financial institutions (Note 13)	**10,272,289**	17,504,998
Investment securities(Note 14)	**3,852,449**	-
Loans and advances to customers (Note 15)	**90,466,033**	57,005,269
Other receivables (Note 16)	**1,106,445**	1,334,332
Amounts due from related parties (Note 23)	**221,517**	12,085
	110,816,549	80,727,370

The above table represents the worst case scenario of credit risk exposure to the Company at 31 December 2018 and 31 December 2017 without taking into account any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

As indicated above, 82% (2017: 71%) of the total maximum exposure is derived from loans and advances. Balances held with other financial institutions represent 6% (2017: 22%) of the total maximum exposure.

Concentration of risk

The sector analysis of the concentration of credit risk is shown below;

	2018 Shs '000	%	2017 Shs '000	%
Trade and commerce	**29,929,098**	**32%**	21,835,341	37%
Education	**22,720,962**	**24%**	12,923,598	22%
Building and construction	**18,682,161**	**20%**	12,065,792	21%
Agriculture	**17,621,849**	**19%**	9,011,251	15%
Other	**4,532,113**	**5%**	2,490,942	4%
	93,486,182	**100%**	58,326,924	100

As at 31 December 2018, the Company had no loans and advances to a single borrower or group of related borrowers exceeding 25 % of core capital (2017: Nil).

Notes (continued)

32. Financial risk and management objectives and policies (continued)

Risk management framework (Continued)

(i) Credit risk (Continued)

Credit risk measurement

(a) Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Company estimates expected credit losses as the product of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is consistent with the approach for measuring Expected Credit Loss under IFRS 9.

Credit risk grading

The Company uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. Driven primarily by days past due analysis of borrowers, the system also relies on borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures). The classification process also benefits from expert judgement from the Credit Department to cater for considerations which may not be captured as part of the other data inputs into the model.

Standard	Items that are fully current and the full repayment of the contractual principal and interest amounts are expected. It also includes items past due between 1 and 30 days.
Watchlist	Items past due between 31 and 90 days; or items for which the borrower is experiencing difficulties. Ultimate loss is not expected but could occur if adverse conditions persist.
Substandard	Items between 91- 180 days past due or items that show underlying well-defined weaknesses that could lead to probable loss if not corrected. The risk that these items may be impaired is probable and the Company relies to a large extent on the available security.
Doubtful	Items that are 181 – 365 days past due, or items considered to be impaired but are not yet considered final losses because of pending factors, which may strengthen the quality of the items.
Loss	Items past due by more than 365 days or items that are considered to be uncollectible and where the realization of collateral and institution of legal proceedings have been unsuccessful.

Micro finance loans below Shs 5 million are classified as Standard if past due between 1 to 29 days; Substandard for days past due of 30 and 59 days , Doubtful for 61-89 days past due; and, Loss if overdue by more than 90 days.

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(i) Credit risk (Continued)

Expected credit loss measurement

The Company's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The Company adopts a three-stage approach for impairment assessment based on changes in credit quality since initial recognition:

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument (lifetime expected credit losses).

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses. The guiding principle for ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments since initial recognition. The ECL allowance is based on credit losses expected to arise over the life of the asset (life time expected credit loss), unless there has been no significant increase in credit risk since origination.

•A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Explanation of inputs, assumptions and estimation techniques

ECL are a probability-weighted estimate of credit losses. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual or a collective basis (although measurement on a collective basis is more practical for large portfolios of items).

Segmentation

The starting point of the Company's process of estimating ECL is segmentation of its loan book as follows:

- Group Loans; and
- Individual loans. These are further segmented as below;
  - Agriculture loans
  - Business loans
  - Education loans
  - Individual loans

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(i) Credit risk (Continued)

Explanation of inputs, assumptions and estimation techniques (continued)

Definintion of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk

The Company considers a financial asset to be in default when it meets one or more of the following criteria:

- The Group borrower is more than 30 days past due on its contractual payments.
- The Individual borrower is more than 90 days past due on its contractual payments.

This definition of default is used by the Company for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of

Measurement of ECL

The key inputs into the measurement of ECL are :

- Probability of default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighed forward looking information.

When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the economic sector performance, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis.

Probability of Default ("PD") refers to the likelihood of a borrower defaulting on their financial obligation and is a measure of the risk of default. It is estimated as at a point in time. PDs have been estimated using data from the Company for January 2014to December 2018 for stage 1 facilities (normal), stage 2 (watch) and stage 3 (non-performing).

The PDs were derived by grouping cohorts of loans for each time period, in this case monthly, together and tracking performance of individual customers in each cohort. The average marginal default for each cohort was used to estimate 12 month and lifetime PDs. These were then overlaid with three economic scenarios i.e. best case, optimistic and pessimistic, and their respective of occurrence as applicable to the Company to arrive at the PDs.

Loss Given default ("LGD") represents the Company's expectation of the extent of loss on a defaulted exposure. The Company has estimated LGD parameters based on collateral available for secured debt instruments against exposures.

The 12-month and lifetime LGD models for secure loans considers the structure, collateral, seniority of the claim, and counterparty industry and recovery costs of any collateral that is integral to the financial asset. Collateral is eligible if the following can be demonstrated:

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(i) Credit risk (continued)

Explanation of inputs, assumptions and estimation techniques (continued)

Measurement of ECL (continued)

- Legal certainty and enforceability
- History of enforceability and recovery
- The realisable value can be reliably estimated.

LGD estimates have been calibrated for different collateral types. To reflect possible changes in property prices, the forced sale value (FSV) shall be considered for all collateral types.

The Company's acceptable collateral types include; Cash Under Lien, land and buildings (commercial and residential) and motor vehicles.

Loss given default has been estimated as the forced sale values of the collateral backing the facilities as at 31 December 2018 which were then discounted using the effective interest rates to take account of time value of money due to delays that might be experienced if the Company attempts to realize the collateral.

The 12 month and lifetime LGD model for unsecured loans considers collections/recoveries from write-offs. The recoveries are weighted with respect to monthly exposure.

For each segment, LGD is computed as:

LGD = 1-recovery rate.

For prudence the Company has also taken an LGD floor value of 10% as per the Basel guidelines.

Exposure at default ("EAD") represents the Company's expected exposure in the event of a default over the 12 months or over the remaining lifetime. The Company has derived the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract.

The EAD is estimated considering the contractual rundown of loans which has been performed using the loan contractual features i.e. loan principal amount, contractual interest rate and contractual term.

The Company measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice.

Forward looking information has been incorporated in the ECL model. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for the portfolio.

This process involved developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information included economic data and forecasts published by BMI research. The base case represent a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes.

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(i) Credit risk (Continued)

Explanation of inputs, assumptions and estimation techniques (continued)

Measurement of ECL (continued)

The Company has identified and documented key drivers of credit risk and credit losses for loans and advances and, using an analysis of historical data for the period January 2014 to December 2018, has estimated relationships between macro-economic variables and credit risk and credit losses. The key driver identified by the Company is household spending. Predicted relationships between the key indicator and default and loss rates on the Company's loans and advances has been developed based on analysing historical data over the previous 5 years. The economic scenarios used was approved by the Company's directors.

The economic scenarios for the principal macroeconomic indicators used at 31 December 2018 were as follows:

Base scenario	70%
Upside scenario	15%
Downside scenario	15%

ECL calculations

ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate.

An analysis of the credit risk exposure for loans and advances, internal risk classification and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the table below:

Loans and advances to customers	**At 31 December 2018**				**At 1 January 2018**
	Stage 1 12 month Shs' 000	**Stage 2 Lifetime Shs' 000**	**Stage 3 Lifetime Shs' 000**	**Total Shs' 000**	**Shs' 000**
Individually and collectively					
Grade 1: Normal	82,778,485	-	-	82,778,485	51,760,711
Grade 2: Watch	-	8,353,906	-	8,353,906	4,103,081
Grade 3: Substandard, Doubtful, and loss	-	-	2,353,791	2,353,791	2,463,132
Gross amount	**82,778,485**	**8,353,906**	**2,353,791**	**93,486,182**	**58,326,924**
Loss allowance	(1,808,658)	(127,126)	(1,074,365)	(3,020,149)	(1,321,655)
Carrying amount	**80,969,827**	**8,226,780**	**1,279,426**	**90,466,033**	**57,005,269**

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(i) Credit risk (continued)

Loss allowance (continued)

increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and

The table below reconciles the closing impairment allowances for loans and advances to customers in accordance with IAS 39 as at 31 December 2017, and the opening impairment allowances determined in accordance with to IFRS 9 as at 1 January 2018:

	IAS 39 – 31 December 2017	IFRS 9 – transition adjustment	IFRS 9 – 1 January 2018			Total IFRS 9 loss allowance at 1 January 2018
			Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Loans and advances to customers	1,321,655	986,285	1,594,102	80,656	633,182	2,307,940

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period;

	2018			
Loans and advances to customers at amortised cost	**Stage 3 12 month Shs' 000**	**Stage 2 Lifetime ECL Shs' 000**	**Stage 1 Lifetime ECL Shs' 000**	**Total Shs' 000**
Loss allowance as at 1 January 2018	**1,594,102**	**80,656**	**633,182**	**2,307,940**
Changes in the loss allowance				
Movement in stage 1	1,339,642	-	-	1,339,642
Movement in stage 2	-	46,470	-	46,470
Movement in stage 3	-	-	441,183	441,183
Write offs /(recoveries)	(1,115,086)	-	-	(1,115,086)
Loss allowance as at 31 December	**1,818,658**	**127,126**	**1,074,365**	**3,020,149**

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(i) Credit risk (continued)

Loans and advances

Under the Company's monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 1 day past due. The table below provides and analysis of the gross carrying amount of loans and advances to customers by days past due.

	At 31 December 2018		At 1 January 2018	
Days past due	Gross carrying amount Shs '000	Loss Allowance Shs '000	Gross carrying amount Shs '000	Loss Allowance Shs '000
0-29 days	87,359,599	1,518,145	55,260,977	1,055,837
30-59 days	2,428,763	469,169	901,495	203,025
60- 89 days	1,890,675	140,848	361,974	83,098
90-180 days	737,558	369,811	846,726	426,952
More than 181 days	1,069,587	522,176	955,752	539,028
Total	93,486,182	3,020,149	58,326,924	2,307,940

Individual loans and advances

	At 31 December 2018		At 1 January 2018	
Days past due	Gross carrying amount Shs '000	Loss Allowance Shs '000	Gross carrying amount Shs '000	Loss Allowance Shs '000
0-29 days	9,041,048	135,642	5,212,766	22,911
30-59 days	334,378	93,901	241,290	2,092
60- 89 days	138,466	32,305	78,973	2,196
90-180 days	107,902	21,777	69,602	25,828
More than 181 days	128,907	45,915	109,777	40,679
Total	9,750,701	329,540	5,712,408	93,706

Business loans and advances

	At 31 December 2018		At 1 January 2018	
Days past due	Gross carrying amount Shs '000	Loss Allowance Shs '000	Gross carrying amount Shs '000	Loss Allowance Shs '000
0-29 days	22,731,373	224,482	14,031,943	154,639
30-59 days	478,857	9,550	170,888	13,325
60- 89 days	972,348	26,949	105,674	7,017
90-180 days	197,521	124,535	161,854	104,789
More than 181 days	305,130	192,381	409,262	264,967
Total	24,685,229	577,897	14,879,621	544,737

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(i) Credit risk (continued)

Loans and advances (continued)

Group loans and advances

	At 31 December 2018		At 1 January 2018	
Days past due	Gross carrying amount Shs '000	Loss Allowance Shs '000	Gross carrying amount Shs '000	Loss Allowance Shs '000
0-29 days	17,135,599	845,232	13,827,772	640,572
30-59 days	232,062	193,581	180,796	156,332
60- 89 days	67,981	56,708	65,880	56,966
90-180 days	151,354	126,256	182,603	152,323
More than 181 days	118,006	98,438	169,012	140,986
Total	**17,705,002**	**1,320,215**	**14,426,063**	**1,147,179**

Agriculture loans and advances

	At 31 December 2018		At 1 January 2018	
Days past due	Gross carrying amount Shs '000	Loss Allowance Shs '000	Gross carrying amount Shs '000	Loss Allowance Shs '000
0-29 days	17,968,579	247,457	11,074,049	171,044
30-59 days	875,205	164,105	278,109	31,228
60- 89 days	634,634	18,567	58,746	5,534
90-180 days	269,830	92,225	405,373	131,490
More than 181 days	449,546	153,651	226,315	73,410
Total	**20,197,794**	**676,005**	**12,042,592**	**412,706**

Education loans and advances

	At 31 December 2018		At 1 January 2018	
Days past due	Gross carrying amount Shs '000	Loss Allowance Shs '000	Gross carrying amount Shs '000	Loss Allowance Shs '000
0-29 days	20,483,000	65,332	11,114,447	66,671
30-59 days	508,261	8,032	30,413	48
60- 89 days	77,247	6,319	52,701	11,385
90-180 days	10,951	5,018	27,294	12,522
More than 181 days	67,997	31,791	41,385	18,986
Total	**21,147,457**	**116,492**	**11,266,240**	**109,612**
Grand total	**93,486,182**	**3,020,149**	**58,326,924**	**2,307,940**

The Company assessed ECL of debt instruments and deposits and balances due from Banks and other financial institutions as Shs 143 million (1 January 2018: Nil).

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(i) Credit risk (continued)

Collateral

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

- mortgages over residential and commercial properties.
- charges over business assets such as vehicles and plant and equipment financed by the Company and other business assets.
- charges over financial instruments such as debt securities and deposit account balances.

Longer-term finance and lending to corporate entities are generally secured.

The Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2018 was Shs. 3,940 million.

Accounting for impairment of financial assets under IAS 39 for 2017 and 2016

Impairment of financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In assessing collective impairment the Company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(i) Credit risk (continued)

Accounting for impairment of financial assets under IAS 39 for 2017 and 2016 (continued)

Provision for impairment losses on loans and advances

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. The Company considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics. When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to other income (recoveries) in the statement of comprehensive income.

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

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

Commercial loans

(a) Substandard loans with arrears period between 90 to 180 days-20%
(b) Doubtful loans with arrears period between 180 to 365 days - 50% and
(c) Loss with arrears period exceeding 365 days - 100% provision

Micro loans

Substandard loans with arrears period between 30 to 59 days-25%
Doubtful loans with arrears period between 60 to 89 days - 50% and
Loss with arrears period exceeding 90 days - 100% provision

General provision of 1% of credit facilities less specific provision and suspended interest.

In the event that provisions computed in accordance with the Financial Institutions Act, exceed provisions determined in accordance with IFRS, the excess is accounted for as an appropriation of retained earnings and transferred to the regulatory reserve.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities.

The Company has access to a diverse funding base. Funds are raised mainly from related party companies, other financial services institutions and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(ii) Liquidity risk (Continued)

The Company strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. purposes of monitoring the liquidity position of the Company as shown below:

The table below presents the undiscounted cash flows by remaining contractual maturities as the reporting date:

	Within 3 months	More than 3 but less than 6 months	Within 6 months to 1 year	Over 1 year	Total
Financial assets	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**
Cash and bank balances	8,465,992	-	-	-	8,465,992
Balances held with other financial institutions – held-to-maturity	-	4,439,274	5,833,015	-	10,272,289
Investment Securities		1,843,903		2,008,545	3,852,449
Loans and advances to customers	6,390,765	11,765,113	25,079,199	50,251,105	93,486,182
Other receivables	-	-	1,106,445	-	1,106,445
Due from related parties	-	221,517	-	-	221,517
	14,856,757	**18,269,808**	**32,018,658**	**52,259,650**	**117,404,874**
Financial liabilities					
Bank Overdraft	2,344,702				2,344,702
Collateral loan security fund	-	-	5,533,613	-	5,533,613
Other liabilities	7,448,301	414,643	276,428	-	8,139,372
Customer deposits	38,141,079	7,715,310	14,130,571	-	59,986,960
Borrowings	3,394,077	3,743,747	2,613,209	10,073,913	19,824,946
	51,328,160	**11,873,699**	**22,553,820**	**10,073,913**	**95,829,593**
Liquidity gap 2018	**(36,471,403)**	**6,396,109**	**9,464,838**	**42,185,737**	**21,575,280**
Liquidity gap 2017	(16,475,131)	500,747	21,615,186	19,882,818	25,523,620

(iii) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates, foreign currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by the ALCO) and for the day to day implementation of those policies.

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(iii) Market risk (continued)

Interest rate risk

Opportunity Bank Uganda's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Company's business strategies. Opportunity Bank Uganda does not have any significant interest rate risk exposures; it is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

The table below includes the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Within 3 months	More than 3 but less than 6 months	More than 6 months	Total
Financial assets	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Balances held with other financial institutions – held-to-maturity	-	4,439,274	5,833,015	10,272,289
Investment Securities		1,843,904	2,008,545	3,852,449
Loans and advances to customers	6,390,765	11,765,113	75,330,304	93,486,182
	6,390,765	**18,048,291**	**83,171,864**	**107,610,920**
Financial liabilities				
Bank overdraft	2,344,702			2,344,702
Customer deposits	38,141,079	7,715,310	14,130,571	59,986,960
Borrowings	3,394,077	3,743,747	12,687,122	19,824,946
	43,879,858	**11,459,057**	**26,817,693**	**82,156,608**
Interest rate sensitivity gap 2018	**(37,489,093)**	**6,589,234**	**56,354,171**	**25,454,312**
Interest rate sensitivity gap 2017	(19,164,380)	863,080	40,163,672	21,862,372

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(iii) Market risk (continued)

Foreign exchange risk

The Company is exposed to foreign exchange risk through transactions in foreign currencies. The Company's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Opportunity Bank Uganda operates wholly within Uganda and it held no significant foreign currency exposure as at 31 December 2018 and 31 December 2017 as shown below:.

	Foreign currency Shs '000	Shs Shs '000	Total Shs '000
Assets			
Financial assets			
Cash and bank balances	2,300,024	7,175,174	9,475,198
Balances held with other financial	-	10,272,289	10,272,289
Investment Securities	-	3,852,449	3,852,449
Loans and advances to customers	-	93,486,182	93,486,182
Other receivables	-	1,106,445	1,106,445
Due from related parties	-	221,517	221,517
	2,300,024	**116,114,056**	**118,414,080**
Liabilities			
Financial liabilities			
Bank Overdraft	-	2,344,702	2,344,702
Collateral loan security fund	-	5,533,613	5,533,613
Customer deposits	-	59,986,960	59,986,960
Other liabilities	245,890	7,893,482	8,139,372
Borrowings	184,825	19,640,121	19,824,946
	430,715	**95,398,878**	**95,829,593**
Net open position 2018	**1,869,309**	**20,715,178**	**22,584,487**
Net open position 2017	(841,240)	25,043,925	24,202,685

Foreign currency sensitivity

At 31 December 2018, if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been Shs 93 million (2017: Shs 29 million) higher/lower, mainly as a result of US dollar denominated receivables, payables and bank balances.

(iv) Capital risk management

The Company monitors the adequacy of its capital using ratios established by the Financial Institutions Act. These ratios measure capital adequacy by comparing the Company's eligible capital with its balance sheet assets and off balance sheet commitments at weighted amounts to reflect their relative risk.

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(iv) Capital risk management(continued)

Assets are weighted according to the amount of capital deemed necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied, for example cash and money market instruments have zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries 100% risk weighting, meaning that it must be supported by capital equal to 100% of the carrying amount.

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

- to comply with the capital requirements set by the Financial Institutions Act 2004;
- 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; and
- to maintain a strong capital base to support the development of its business.

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

The Financial Institutions Act requires the Company to:

a) hold the minimum level of paid up capital of Shs 1 billion and minimum capital unimpaired by losses of Shs 1 billion ;

b) maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet items at or above the required minimum of 10%; and

c) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance

The Company's total regulatory capital is comprised of:

- tier 1 capital (core capital): share capital plus retained earnings/ (accumulated losses); and
- tier 2 capital (supplementary capital) which is comprised of the general provisions as per the Financial Institutions Act .

The table below summarises the composition of regulatory capital and the ratios of the Company at 31 December 2018 and 31 December 2017 determined in accordance with the Financial Institutions Act.

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(iv) Capital risk management(continued)

	Notes	2018 Shs '000	2017 Shs '000
CORE CAPITAL (Tier 1)			
Paid- up share capital	25	**9,846,294**	9,846,294
Share premium	25	**11,992,536**	11,992,536
Retained earnings		**7,034,394**	3,808,475
Less deductions:			
Intangible assets	19	**(2,653,107)**	(173,072)
Unrealized foreign exchange gains		**(103,510)**	(9,484)
Total core capital		**26,116,607**	**25,464,749**
Supplementary capital (Tier 2)			
General provisions		**1,834,168**	1,395,180
Revaluation reserve	28	**2,590,312**	1,609,979
Total supplementary capital		**4,424,480**	3,005,159
Total capital (Core + supplementary)		**30,541,087**	**28,469,908**

The table below summarises the composition of the risk weighted assets of the Company at 31 December 2018 and 31 December 2017:

Capital requirement basis	**Risk Weighting**	**2018 Amount Shs '000**	**Capital Req. Basis Shs '000**	**2017 Amount Shs '000**	**Capital Req. Basis Shs '000**
Cash and balances with Bank of Uganda (Note 12)	0%	**4,686,469**	-	2,366,411	-
Investment securities (Note 14)	0%	**3,852,449**	-	-	-
Balances with other finance institutions in Uganda (Note 13)	20%	**15,164,778**	**3,032,956**	22,277,324	4,455,465
Loans net of provisions (Note 15)	100%	**90,466,033**	**90,466,033**	57,005,269	57,005,269
Property and equipment (Note 17)	100%	**11,637,569**	**11,637,569**	7,300,644	7,300,644
Other assets (Note 16)	100%	**3,859,086**	**3,859,086**	3,963,855	3,963,855
Total risk weighted assets*		**129,666,384**	**108,995,644**	92,913,503	72,725,233
Contingent claims ***		-	-	-	-
Other commitments		-	-	-	-
Weighted items for market risk	8.33	**269,028**	**2,241,900**	-	-
Total risk-weighted assets		**129,666,384**	**111,237,544**	92,913,503	72,725,233

Notes (continued)

32. Financial risk and management objectives and policies (continued)

(iv) Capital risk management(continued)

	2018 Shs '000	2017 Shs '000
Core capital	**26,116,607**	25,464,749
Total capital	**30,541,087**	28,469,908
FIA capital ratios		
Core capital (Minimum required – 10%)	**23.47%**	35.02%
Total capital (Minimum required – 14%)	**27.46%**	39.15%

33. Fair value measurement

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.
- 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 2018	**Level 3 Shs '000**	**Total Shs '000**
Assets measured at fair value		
Balances held with other financial institutions	10,272,289	10,272,289
Investment securities	3,852,449	3,852,449
Loans and advances	93,486,182	93,486,182
	107,610,920	**107,610,920**
At 31 December 2017		
Balances held with other financial institutions	17,504,998	17,504,998
Loans and advances	58,326,924	58,326,924
	75,831,922	75,831,922

Notes (continued)

33. Fair value measurement (continued)

As at 31 December 2018, the Company did not have financial liabilities measured at fair value (2017: Nil).

34. Contingent liabilities and commitments

(a) Contingent liabilities

The Company is a defendant in a number of legal cases as at 31 December 2018. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2018 of Shs 162 million (2017: Shs 182 million) included in other payable and accruals in Note 22.

(b) Commitments

The Company had no commitments to extend credit or unused formal facilities as of 31 December 2018 (2017: Nil).