# EFC UGANDA LIMITED (MDI)

## FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2020

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## COMPANY INFORMATION

| | |
|---|---|
| **DIRECTORS** | Mr. Charles W. Nalyaali** - Chairperson<br>Ms. Diana Ninsiima Kibuuka** - Vice Chairperson<br>Mr. Julius Tichelaar*<br>Mr. Alexis Losseau****<br>Mr. Stevens Mwanje**<br>Mrs. Florence Bamwine**<br>Mr. Bruno Degoy*****<br>Mr. Brent Wilson***<br>Mr. Shem Edmond Kakembo**<br><br>*Dutch **Ugandan ***Canadian ****Belgian *****French |
| **COMPANY SECRETARY** | Shamim Nambuusi<br>5th Floor, Rashida Towers<br>Plot 6, Mabua Road, Kololo<br>P.O. Box 33667<br>Kampala, Uganda |
| **REGISTERED OFFICE** | 5th & 6th Floor - Rashida Towers<br>Plot 6 Mabua Road, Kololo<br>P.O. Box 33667<br>Kampala, Uganda |
| **INDEPENDENT AUDITORS** | BDO East Africa<br>Certified Public Accountants of Uganda<br>6th Floor, Block C<br>Nakawa Business Park<br>Plot 3-5 New PortBell Road<br>P.O. Box 9113<br>Kampala, Uganda |
| **PRINCIPAL BANKER** | Standard Chartered Bank (U) Limited<br>Plot 5, Speke Road<br>Kampala, Uganda<br>P.O. Box 7111 |
| **SECONDARY BANKERS** | Bank of Africa (U) Limited<br>Plot 45 Jinja Road<br>P.O. Box 2750<br>Kampala, Uganda<br><br>DFCU Bank (U) Limited<br>Plot 2, Jinja Road<br>P.O. Box 70,<br>Kampala, Uganda |

## COMPANY INFORMATION (CONTINUED)

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|---|---|
| **SECONDARY BANKERS (CONTINUED)** | KCB Bank Uganda Limited<br>Commercial Plaza 7, Kampala Road<br>P.O. Box 7399<br>Kampala, Uganda |
| | NCBA Bank Uganda Limited<br>Rwenzori Towers, Nakasero<br>P.O. Box 28707<br>Kampala, Uganda |
| | Cairo Bank Uganda Limited<br>Plot 16 Lotis Towers, Mackinnon Road<br>P.O.Box 7052<br>Kampala Uganda |
| | Exim Bank Uganda Limited<br>Plot 6, Hannington Road<br>P.O.Box 36206<br>Kampala Uganda |
| | Tropical Bank Uganda Limited<br>Plot 27, Kampala Road<br>P.O.Box 9485<br>Kampala Uganda |

## DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of EFC Uganda Limited (MDI) (the "Company").

### 1. Principal activities

The activity of the Company continues to be that of providing financial services to entrepreneurs, micro, small and medium enterprises in Uganda on a permanent and sustainable basis while contributing to wealth creation and poverty reduction.

### 2. Results

The results of the Company for the year ended 31 December 2020 are set out on page 13.

### 3. Dividend

The directors do not recommend the payment of a dividend for the year (2019: Nil).

### 4. Directors

The directors who held office at the date of this report are shown on page 1.

### 5. Share capital

The authorized & issued share capital is UGX 30,196.1 million (2019: UGX 30,196.1 million) and paid-up share capital is UGX 24,263.6 million (2019: UGX 24,263.6 million) comprising 10,575 million (2019: UGX 10,575 million) ordinary shares with a nominal value of UGX 1 (2019: UGX 1), 18,951.6 million (2019: 18,951.6 million) Class A Ordinary shares with a nominal value of UGX 0.248 (2019: UGX 0.248) and 184,211 million (2019: 184,211 million) Class B ordinary shares with a nominal value UGX 0.081 per share.

### 6. Financial risk management objectives and procedures

The Company's activities expose it to a variety of financial risks including credit, liquidity, and market risks. The company's overall risk management policies are set out by the board and implemented by management. These policies involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. These risk management objectives and policies are outlined in detail under note 4 in the financial statements.

### 7. Corporate governance

The Board of directors consists of nine (9) directors. One of the directors, Mr. Shem Edmond Kakembo holds an executive position (Managing Director) in the company as it is a requirement by Bank of Uganda. The Board takes overall responsibility for the company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management, business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operating effectively, and for compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board delegates the day-to-day management of business operations to the Managing Director who is assisted by senior management. The audit committee facilitates the effective control of all the company's operational activities, acting as a medium of communication and coordination between all the stakeholders.

## DIRECTORS' REPORT (CONTINUED)

### 8. Board committees

To ensure effectiveness, the Board set up various committees which operate within and in accordance with clearly set terms of reference. The committees report to the Board at periodic intervals and by circulation.

These committees include the following;

### *8.1 Board Audit Committee (BAC)*

The BAC sits on a quarterly basis and its mandate includes the following;

a) Monitoring the financial reporting process, its output and the integrity of the Company's financial statements including any formal announcements relating to the company's financial performance;

b) Monitoring and reviewing the effectiveness of the Company's internal audit function while ensuring that the internal audit function maintains open communication with senior management, external auditors, the supervisory authority, and the Audit Committee;

c) Recommending to the board or shareholders for their approval, the remuneration and terms of engagement of the external audit firm; and

d) Ensuring that the Company has identified the major risks it faces and has established procedures and practices necessary for optimal control of these risks.

The committee comprises the following members:

- Stevens Mwanje - Chairperson
- Bruno Degoy - Member
- Alexis Losseau - Member

### *8.2 Human Resource & Compensation Committee (HRCC)*

The HRCC seats on a quarterly basis and it's mandated to;

a) Ensure that EFC's human resources management function and activities are adequate and effective;

b) Provide strategic oversight and governance relevant to the adequacy and effectiveness of the HR management, organizational structure and function of the company; Review all existing HR policies while ensuring that there are adequate policies additions being considered for guidance and Board approval;

c) Review, monitor and, if advisable, make recommendations for Board approval on the Company's performance evaluation and compensation parameters as deemed appropriate and in the best interests of the company, including remedial actions in case of unsatisfactory evaluations and with due consideration to the company's performance, shareholder return and competitive benchmarks; and

d) Annually review the Company's management succession plans and contingency preparedness.

The committee constitutes of the following members:

- Florence Bamwine - Chairperson
- Julius Tichelaar - Member
- Alexis Losseau - Member
- Brent Wilson - Member

## DIRECTORS' REPORT (CONTINUED)

### *8.3 Risk, Assets and Liabilities Committee (RALCO)*

The RALCO seats on a quarterly basis and it's mandated to;

a) Establish and oversee the overall asset and liability strategies including risk limits, tolerance and/or appetite and recommending asset and liability management policies and procedural guidelines;

b) Ensure the risk limits, policies and procedural guidelines adequately provide for the identification, measurement, monitoring and control of risks inherent in investment and liquidity management decisions;

c) Review and oversee management of changes to the EFC's balance sheet, including structural changes and achievement of strategic objectives in relation to growth or shrinkage;

d) Monitor the aggregate level of compliance with risk limits;

e) Recommend types of products and treasury instruments with an appropriate duration and interest rate to manage the overall balance sheet structure; and

f) Oversee the treasury function relative to implementation of the duly approved strategies, limits and procedures relating to all key risks inherent in the company's financial activities.

The committee constitutes of the following members:

- Diana Ninsiima Kibuuka - Chairperson
- Brent Wilson - Member
- Julius Tichelaar - Member
- Bruno Degoy - Member

### *8.4 Board Transformation Committee*

In 2019, the board set up a Transformation Committee, as a sub- committee of RALCO. Its mandate is to provide;

a) Oversight over the acquisition and implementation of a new state of the art Core Banking System to support the MDI in the digitalization Strategy. EFC went live on the new system in the 4th Quarter of 2020;

b) Oversight over the upgrade of the Institution's License and transform into a tier 2 bank; and

c) Review, Monitor and if advisable make recommendations to the board on the various activities required to achieve the 2 transformational projects.

The committee constitutes of the following members:

- Diana Ninsiima Kibuuka - Chairperson
- Julius Tichelaar - Member
- Shem Kakembo - Member/Secretary

### 9. Board Evaluation

In order to ensure that the Board remains efficient and effective while discharging its responsibilities, a Board assessment and review on performance is currently being undertaken for the year ended 31st December 2020.

## DIRECTORS' REPORT (CONTINUED)

### 10. Management Committees

For effective delegation the Managing Director also set up various committees made up of senior management entrusted with different responsibilities which operate within prescribed Terms of Reference. These Committees include Executive Committee (EXCO), Management Asset and Liabilities Committee (MALCO), Credit Risk Management Committee (CRMC), Management Risk Committee (MRC) and Procurement Committee. The committee meetings are held on a monthly basis.

### 11. Independent auditors

The Company's auditors, BDO East Africa, Certified Public Accountants of Uganda, were appointed during the year and being eligible, have expressed their willingness to continue in office in accordance with Section 167(2) of the Companies Act, 2012 of Uganda.

### 12. Approval of Financial Statements

The financial statements were approved at a meeting of the board of directors held on 8th April 2021

**By Order of The Board**

SECRETARY

Date: 29 April 2021

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation and fair presentation of the annual financial statements of EFC Uganda Limited (MDI), comprising of the statement of financial position as at 31 December 2020 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes in accordance with the International Financial Reporting Standards and the requirements of the Companies Act, 2012 of Uganda and the Microfinance Deposit-taking Institutions Act, 2003, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The directors are ultimately responsible for the internal controls. The directors delegate responsibility for internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of the Company's assets. Appropriate accounting policies supported by reasonable and prudent judgments and estimates, are applied on a consistent and going concern basis. The directors are also responsible for maintaining adequate accounting records and an effective system of risk management.

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

The auditor is responsible for reporting on whether the annual financial statements of EFC Uganda Limited (MDI) are fairly presented in accordance with the International Financial Reporting Standards, the Companies Act, 2012 of Uganda and the Microfinance Deposit-taking Institutions Act, 2003.

### Approval of the financial statements

The annual financial statements of EFC Uganda Limited (MDI) were approved by the board of directors on 8th April 2021 and signed on its behalf by:

DIRECTOR

DIRECTOR

Tel: +256 414 220 371
+256 700 200 770 / 788 158 444
Email: uganda@bdo-ea.com
info@bdo-ea.com
www.bdo-ea.com
ICPAU No. AF0019

BDO East Africa
Certified Public Accountants of Uganda
6th Floor, Block C, Nakawa Business Park
Plot 3-5, New Port Bell Road
P.O Box 9113
Kampala, Uganda.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EFC UGANDA LIMITED (MDI)

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of EFC Uganda Limited (MDI) (the Company), which comprise: the statement of financial position as at 31 December 2020; and the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, the Micro Finance Deposit Taking Institute Act 2003 and requirements of the Companies Act, 2012 of Uganda.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

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

*1. Impairment of loans and advances*

The impairment of loans and advances is a key audit matter due to the degree of judgment and estimation required. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market and economic matters. The use of different modelling techniques and assumptions could produce significantly different estimates of impairment loss provisions. Management has made a number of assumptions when designing and implementing impairment model that is compliant with IFRS 9 *Financial Instruments*. The model uses risk parameters, such as loss given default, exposure at default and probability of default to calculate an expected credit loss based on past experience and judgment in situations where this past experience is not considered to be reflective of future outcomes due to limited or incomplete data. Refer to note 13(a) that describes the assumptions made in determining impairment.

BDO



Report on the Audit of the Financial Statements (Continued)

*Key Audit Matters (Continued)*

*Our audit procedures included the following, amongst others:*

- We reviewed the expected credit loss impairment model and impairment methodology adopted by management.
- Tested the assumptions underlying the impairment quantification.
- Tested the appropriateness and accuracy of inputs to the model and where available compared data and assumptions to external benchmarks; and

Evaluated the output of the impairment models in comparison to the adjustments in the general ledger.
For a sample of customer accounts, we evaluated management assessment of credit risk arising from the customer balances.

The combination of the data validation and substantive tests that we carried out gave us sufficient evidence to rely on the inputs of the model and the impairment charge included in the financial statements.

*2. IT systems and controls*

The Company is dependent on IT systems to (a) serve customers, (b) support business processes, (c) ensure complete and accurate processing of financial transactions and (d) support the overall internal control framework. Many of the Company's internal controls over financial reporting are dependent upon automated application controls and completeness and integrity of data/reports generated by the IT systems. The Company acquired and implemented a new core banking system effective October 2020. Given the complexity of the infrastructure and a high dependency on the core banking system, we considered this to be a key audit matter for our audit.

*Our audit procedures included the following, amongst others:*

- Assessed management principles and processes for modifications to the IT-environment.
- Evaluated key controls like segregation of duties for personnel working with development and production environment.
- Evaluated controls around the interfaces of various systems of the company, evaluated the process for identity and access management, including access granting, change and removal.
- Evaluated the appropriateness of controls for security governance and system hardening to protect systems and data from unauthorised use, including logging of security events and procedures to identify known vulnerabilities.
- We also performed various data analytic tests to check the completeness, accuracy and reliability of data output reports from the core banking system.

The combination of the test of controls and data validation tests, that we carried out described above gave us sufficient evidence to rely on the results of the system for the purpose of our work.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EFC UGANDA LIMITED (MDI) (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the directors' 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 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 Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EFC UGANDA LIMITED (MDI) (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

*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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 management

- Conclude on the appropriateness of management's 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Report on the Audit of the Financial Statements (Continued)

### *Auditor's Responsibilities for the Audit of the Financial Statements (Continued)*

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

## Report on Other Legal and Regulatory Requirements

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

(i) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of 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 (balance sheet) and statement of profit or loss and other comprehensive income (income statement) are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is CPA Kenneth Makanga, Practicing Certificate No. P0324.

Kenneth Makanga
Partner

BDO East Africa

BDO East Africa
Certified Public Accountants of Uganda
P.O Box 9113
Kampala, Uganda

Date 29th April 2021

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | 2020<br>UGX'000 | 2019<br>UGX'000 |
|---|---|---|---|
| Interest income | 5 | 17,787,861 | 10,388,218 |
| Interest expense | 6 | (6,821,990) | (4,341,698) |
| **Net interest income** | | 10,965,871 | 6,046,520 |
| Net fee and commission income | 7 | 1,859,564 | 2,015,013 |
| Investment income | 8 | 726,117 | 734,383 |
| Other income | 9 | 152,978 | 789,207 |
| **Operating income** | | 13,704,530 | 9,585,123 |
| Staff costs | 10 (a) | (4,517,412) | (4,632,962) |
| Administrative costs | 10 (b) | (2,548,797) | (1,567,864) |
| Operational costs | 10 (c) | (2,263,654) | (1,311,156) |
| Impairment charge | 15 (b) | (1,730,064) | (1,286,868) |
| Finance costs | 11 | (215,062) | (211,364) |
| **Profit before tax** | | 2,429,541 | 574,909 |
| Income tax charge | 13 (a) | - | - |
| **Profit for the year** | | 2,429,541 | 574,909 |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | 2,429,541 | 574,909 |

The notes set out on pages 18 to 65 form an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

| | Notes | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 14 | **10,266,416** | 2,174,811 |
| Investments | 16(a) | **9,836,740** | 9,404,147 |
| Net loans and advances | 15(a) | **57,981,861** | 37,924,793 |
| Other assets | 17 | **1,333,327** | 2,076,626 |
| Current tax recoverable | 13(c) | **472,660** | 459,266 |
| Property and equipment | 18 | **1,039,052** | 1,051,219 |
| Right-of-use assets | 19(a) | **2,405,583** | 3,125,194 |
| Intangible assets | 20 | **3,942,101** | 57,217 |
| **Total assets** | | 87,277,740 | 56,273,273 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 21(a) | **24,263,683** | 24,263,683 |
| Accumulated losses | | **(11,861,476)** | (14,340,263) |
| Regulatory reserve | 22 | **-** | 49,246 |
| | | 12,402,207 | 9,972,666 |
| **Liabilities** | | | |
| Deposits from customers | 25 | **38,850,998** | 25,619,610 |
| Other liabilities | 27 | **2,373,982** | 754,158 |
| Borrowings | 23 | **29,996,945** | 15,815,590 |
| Provision | 28 | **40,000** | 20,000 |
| Lease liabilities | 19(b) | **2,459,406** | 3,022,786 |
| Compulsory term deposits | 26 | **1,154,202** | 1,068,463 |
| | | 74,875,533 | 46,300,607 |
| **TOTAL EQUITY AND LIABILITIES** | | 87,277,740 | 56,273,273 |

The financial statements on pages 13 to 65 were approved by the Board of Directors on 8th April 2021 and were signed on its behalf by:

DIRECTOR

DIRECTOR

The notes set out on pages 18 to 65 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

| | Share capital | Accumulated losses | Regulatory reserve | Total |
|---|---|---|---|---|
| | UGX'000 | UGX'000 | UGX'000 | UGX'000 |
| At 1 January 2020 | 24,263,683 | (14,340,263) | 49,246 | 9,972,666 |
| Total comprehensive income for the year | - | 2,429,541 | - | 2,429,541 |
| Transfer to regulatory reserve | - | 49,246 | (49,246) | - |
| **At 31 December 2020** | **24,263,683** | **(11,861,476)** | **-** | **12,402,207** |
| At 1 January 2019 | 24,263,683 | (14,962,287) | 96,361 | 9,397,757 |
| Total comprehensive income for the year | - | 574,909 | - | 574,909 |
| Transfer to regulatory reserve | - | 47,115 | (47,115) | - |
| **At 31 December 2019** | **24,263,683** | **(14,340,263)** | **49,246** | **9,972,666** |

The notes set out on pages 18 to 65 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

| | Notes | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **2,429,541** | 574,909 |
| *Adjustments for non-cash items:* | | | |
| Amortization of right-of-use asset | 19(a) | **719,611** | 606,757 |
| Depreciation and amortisation | 10(c) | **287,822** | 261,820 |
| Interest on leases | 19(b) | **215,062** | 211,364 |
| Interest on borrowings | 23(b) | **3,037,923** | 2,161,682 |
| Unrealised foreign exchange on borrowings | 23(b) | **275,407** | (56,140) |
| Prior year adjustment | 19(b) | **211,221** | - |
| Loss on disposal of property and equipment | 10(b) | **28,847** | 170,828 |
| Increase in provision | 28 | **20,000** | - |
| Write off of property and equipment | 9(b) | **-** | 3,609 |
| | | **7,225,434** | 3,934,829 |
| *Changes in working capital* | | | |
| Increase in net loans and advances | | **(20,057,068)** | (17,348,294) |
| Decrease/(Increase) in other assets | | **743,299** | (1,237,356) |
| Increase in deposits from customers | | **13,231,388** | 16,619,918 |
| Increase in compulsory term deposits | | **85,739** | 59,834 |
| Increase in other liabilities | | **1,619,824** | 195,749 |
| **Cash used in operating activities** | | **2,848,616** | 2,224,680 |
| Less: Tax paid | 13(c) | **(13,394)** | (100,115) |
| Less: Interest paid | 23(b) | **(2,759,442)** | (2,052,967) |
| **Net cash generated from/ (used in) operating activities** | | **75,780** | 71,598 |
| **Cash flows from investing activities** | | | |
| Investment in fixed term deposits | | **2,075,305** | (5,378,931) |
| Purchase of property and equipment | 18 | **(263,302)** | (617,727) |
| Purchase of intangible assets | 20 | **(3,931,865)** | (17,767) |
| Proceeds from disposal of property and equipment | | **5,781** | 23,954 |
| **Net cash used in investing activities** | | **(2,114,081)** | (5,990,471) |

## STATEMENT OF CASH FLOWS (CONTINUED)

| | Notes | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **19,563,689** | 11,697,516 |
| Repayments of principal | 23(b) | **(6,125,653)** | (4,174,402) |
| Lease payments | 19(b) | **(989,663)** | (920,529) |
| **Net cash generated from financing activities** | | **12,448,373** | 6,602,585 |
| Net increase in cash and cash equivalents | | **10,410,072** | 683,712 |
| Cash and cash equivalents at start of year | | **2,174,811** | 1,491,099 |
| **Cash and cash equivalents at end of year** | 14 (b) | **12,584,883** | 2,174,811 |

The notes set out on pages 18 to 65 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 1. General information

EFC Uganda Limited (MDI) (the "Company") is a private limited Company incorporated in the Republic of Uganda under the Companies Act, 2012 of Uganda. The Company is primarily involved in the provision of financial services to micro and small enterprises and is licensed under the Microfinance Deposit-taking Institutions Act, 2003. The Company's registered office is;

5th & 6th Floor - Rashida Towers
Plot 6 Mabua Road, Kololo
P.O. Box 33667
Kampala, Uganda

## 2. Summary of significant accounting policies

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

### a) Basis of preparation

The financial statements are prepared in accordance 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 prepared in Uganda Shillings rounded off to the nearest thousands (UGX'000), except when otherwise indicated.

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

### b) Adoption of new and revised standards

*i) Standards, Amendments to published Standards and Interpretations effective in the reporting period.*

New standards, interpretations and amendments adopted from 1 January 2020 new standards impacting the MDI that have been adopted in the annual financial statements for the year ended 31 December 2020 are:

<u>COVID-19-Related Rent Concessions (Amendments to IFRS 16)</u>
Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
b) The reduction is lease payments affects only payments originally due on or before 30 June 2021; and
c) There is no substantive change to other terms and conditions of the lease. Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The MDI didn't receive rent concessions during the period therefore the above amendment has not had an impact on the financial statements.

Other standards

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Disclosure Initiative - Definition of Material);
- Revisions to the Conceptual Framework for Financial Reporting;
- Definition of a Business (Amendments to IFRS 3) and
- Interest Rate Benchmark Reform - IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7).

All the above standards have been adopted in the annual financial statements for the year ended 31 December 2020 but have not had a significant effect on the MDI.

*ii) Standards, Amendments to published Standards and Interpretations issued but not yet effective*

| Standard | Effective date | Executive Summary |
|---|---|---|
| IFRS 17 Insurance contracts | 1 January 2021 | IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.<br><br>These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021. |
| *Amendments to definitions and interpretations* | | |
| Interest Rate Benchmark Reform - IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) | 1 January 2021 | The amendment provides relief to companies in respect of certain loans whose contractual terms are affected by interest benchmark reform. |

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

None of the above standards and amendments which are effective for the periods beginning after 1 January 2020 and which have not been adopted early are expected to have a material effect on the Company's future financial statements.

c) Revenue

*(i) Interest income and expense*

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the 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 transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;

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

*(ii) Fees* and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate as above. Other fees and commission income - including account servicing fees, investment management fees, sales commission, placement fees and syndication fees - are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

*(iii) Other income*

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**d) Property and equipment**

*(i) Recognition and measurement*
All property and equipment are initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use. Computer software, including the operating system that is an integral part of the related hardware is capitalised as part of the computer equipment.

*(ii) Subsequent costs*
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

*(iii) Depreciation*
Depreciation is calculated on the straight-line basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

| | Rate % |
|---|---|
| Office equipment | 16.7 |
| Furniture, fittings and other equipment | 10.0 |
| Computer equipment | 20.0 |
| Computer software | 10.0 |
| Motor vehicles | 12.5 |
| Leasehold improvements | 12.5 |
| Generator | 12.5 |

An asset's residual values and useful lives are reviewed and adjusted if appropriate rate the end of each reporting period.

*(iv) Disposal of equipment*
Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

**e) Intangible assets**

Software license costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight-line method to write down the cost of each license or item of software to its residual value over its estimated useful life using an annual rate of 10%.

**f) Translation of foreign currencies**

Transactions in foreign currencies occurring during the year are converted into Uganda Shillings (the functional currency), at rates ruling at the transaction dates. Monetary assets and liabilities at the statement of financial position date which are expressed in foreign currencies are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the statement of comprehensive income in the year in which they arise.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## g) Financial instruments

*Categories of financial assets and liabilities*

### *1. Financial assets*

The Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Company's accounting policy for each category is as follows:

*(i) Fair value through profit or loss*

This category comprises only in-the-money derivatives. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income in the finance income or expense line. Other than investments measured at fair value through profit or loss, the Company does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

*(ii) Amortised cost*

These assets arise principally from the provision of goods and services to customers (e.g. loans and advances), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Company's financial assets measured at amortised cost comprise loans and advances, receivables from related parties, other receivables and cash and cash equivalents in the statement of financial position. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and - for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown separately under current liabilities on the statement of financial position.

Impairment of loans and advances

Impairment provisions for loans and advances are recognised based on the general approach within IFRS 9 which utilises three distinct credit stages to categorise exposures. This categorization also determines the level of provisions required; stage 1 - performing assets that have not experienced any significant deterioration in credit quality since origination; stage 2 - assets which continue to perform against the agreed terms but there has been a significant increase in the associated credit risk since origination; and stage 3 - assets where a loss event has occurred. During this process the probability of the non-payment of the loans and advances is assessed. On confirmation that the loans and advances will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

From time to time, the Company elects to renegotiate the terms of loans and advances due from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the statement of comprehensive income (operating profit).

*Provisioning requirements of the Microfinance Deposit-taking Institutions (Asset Quality) Regulations, 2004*

In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Company is also required by the Microfinance Deposit-taking Institutions (Asset Quality) Regulations, 2004 to estimate losses on loans and advances as follows:

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

   - 25% for Substandard assets with arrears period between 30 days and 60 days;
   - 50% for doubtful assets with arrears period between 60 days and 90 days; and
   - 100% for Loss assets with arrears period over 90 days

   Loans classified as "loss" are written off within six months of being identified, unless approval is obtained from the Central Bank not to write-off. In addition to the arrears period, the Bank must follow subjective criteria in arriving at the classification attributed to the assets.

II. General provisions shall be maintained at not less than 1% of the outstanding performing balance of the total credit facility.

Where provisions for impairment of loans and advances in accordance with the Microfinance Deposit-taking Institutions (Asset Quality) Regulations, 2004 exceed amounts determined in accordance with International Financial Reporting Standards, the excess is taken to the regulatory general credit risk reserve as an appropriation of retained earnings.

Where a loan has been classified as "loss" and is due for write-off in accordance with the Microfinance Deposit-taking Institutions (Asset Quality) Regulations, 2004, but there is objective evidence that the Company has not lost its right to this asset and the cash flows thereon, and as such the de-recognition criteria under the International Financial Reporting Standards and the policy note have not been met, the outstanding amount net of any impairment provision made in accordance with International Financial Reporting Standards is taken to the regulatory general credit risk reserve as an appropriation of retained earnings. Otherwise, no further accounting entries are made.

### 2. *Financial liabilities*

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

*(i) Fair value through profit or loss*

This category comprises only out-of-the-money derivatives. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. The Company does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Company does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*(ii) Other financial liabilities*

Other financial liabilities include the following items:

Deposits from customers and borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position.

Lease liabilities, other payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

## h) Leases

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Company if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

**i) Share capital**

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

**j) Employee benefits**

Employees contribute 5% of their annual emoluments and the company contributes 10% as per the National Social Security Fund Act. The company contribution is recognised in the statement of profit or loss and other comprehensive income as an expense.

**k) Impairment of non-financial assets**

The carrying amount of the company's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated, and impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

**l) Offsetting**

Items of assets and liabilities are not offset unless there is a legally enforceable right to set off and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Items of income and expenses are presented on a net basis only for gains and losses arising from a group of similar transactions such as foreign exchange trading activities.

**m) Deposits and subordinated liabilities**

Deposits and subordinated liabilities are the Bank's sources of debt funding. Deposits and subordinated liabilities are recognised initially at fair value, net of transaction costs incurred. These are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period using the effective interest rate method.

*Sales and repurchase agreements*

Amounts paid on securities sold under sale and repurchase agreements (REPOS) are recognised in the financial statements as assets with the counterparty liability included in amounts due to banking institutions. Securities purchased from Bank of Uganda under agreements to resell (reverse Repos), are disclosed with treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

**n) Financial guarantees and loan commitments**

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

Financial guarantee liabilities or loan commitments to provide a loan at below market interest rate are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee or commitment. The liability is subsequently carried at the higher of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

this amortised amount and the present value of any expected payment to settle the liability when a payment under the guarantee has become probable. Financial guarantees and loan commitments are included within other liabilities.

## o) Contingent liabilities

Estimates of the outcome and of the financial effect of contingent liabilities are made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the statement of profit or loss and other comprehensive income in the year in which it is determined.

## p) Provisions

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

## q) Regulatory reserve

Microfinance deposit-taking institutions are required to comply with Micro Finance Deposit-Taking Institutions (Asset Quality) Regulations, 2004 which sets out amongst other issues, provisioning guidelines for loans and advances to customers based on performance. Where the impairment provision calculated using Central Bank of Uganda regulations exceeds the impairment provision calculated in accordance with the Bank's accounting policy (the International Financial Reporting Standards), the excess is shown as an appropriation of retained earnings within the statement of changes in equity.

## r) Taxation

*(i) Current tax*

Current tax is provided on the results for the period, adjusted in accordance with tax legislation. Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Income Tax Act of Uganda and any adjustments to tax payable in respect of previous years. The current income tax charge is calculated on the basis of the tax rates subsequently enacted at the statement of financial position date.

*(ii) Deferred tax*

Deferred tax is provided in full, using the liability method, on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects no taxable profit or loss, it is not accounted for.

Deferred income tax is determined using the tax rates that have been enacted by the end of the reporting period and are expected to apply in the period when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### s) Related party transactions

For the purposes of these financial statements, a party is considered to be related to the company if;

- the party has the ability, directly or indirectly through one or more intermediaries, to control the company or exercise significant influence over the company in making financial and operating policy decisions, or has joint control over the company;
- the company and the party are subject to common control;
- the party is an associate of the company or a joint venture in which the company is a venturer;
- the party is a member of key management personnel of the company up or the company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- the party is a close family member of a party referred to in the first bullet or is an entity under the control, joint control or significant influence of such individuals.

### t) Grants

Grants received on capital expenditure are generally deducted in arriving at the carrying amount of the asset purchased. Grants for revenue expenditures are netted against the cost incurred by the company.

### u) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 3. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### a) Critical accounting estimates and assumptions

*i) Income taxes*

Significant judgment is required in determining the Company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

*ii) Impairment of financial assets*

The loss allowance for financial assets is based on assumption about risk of default and expected loss rates. The Company uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of key assumptions and inputs used are disclosed in note 15(a).

*ii) Fair value*

Some assets and liabilities included in the Company's financial statements require measurement and/or disclosure of fair value.

The company determines fair value with the maximum possible use of quoted market prices and/or observable market data as indicated in the accounting policy note. If market prices are not available or the market for a financial instrument is not active, fair value is determined by using valuation techniques that make maximum use of market inputs.

Where market inputs are not observable, market inputs such as risk premiums, liquidity discount rates, credit spreads, volatilities and correlations are calculated based on similar instruments with observable market inputs. These inputs are then used in appropriate valuation models to calculate fair value. Valuation techniques applied by the company that incorporates non observable market inputs include, inter alia, discounted cash flows, earnings multiples, the underlying net asset value of the business and/or recent similar transactions.
Refer below for a description of the principal methods and assumptions used to determine the fair value of financial statements.

Changes in the company's best estimate of the non-observable inputs could affect the disclosed fair values. However, changing these inputs to reasonably possible alternatives is not likely to change the fair value significantly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The company measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1** - inputs that are quoted market prices (unadjusted) in active markets for identical instruments e.g. quoted equity securities.
- **Level 2** - inputs other than quoted prices included within level 1 that are observable either directly (e.g. prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in the markets that are considered less than active markets, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3** - Unobservable inputs (i.e. not derived from market data).

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in the valuation techniques include risk free and benchmark interest rates, credit spread, and other premium used in estimating discount rate, bonds and equity prices, foreign exchange rates, equity and equity index prices and expected price volatilities and corrections.

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below;

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Fair value determined using | Unadjusted quoted prices in an active market for identical assets and liabilities | Valuation models with directly or indirectly observable market inputs | Valuation models using significant non-observable market inputs |
| Types of financial assets | Actively traded government and other agency securities, listed derivative instruments, listed equities | Corporate and other government bonds and loans, over the counter (OTC) derivatives | Highly structured OTC derivatives with unobservable parameters, corporate bonds in illiquid markets |
| Types of financial liabilities | Listed derivative instruments | Over the counter (OTC) derivatives | Highly structured OTC derivatives with unobservable parameters. |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*Fair value versus carrying amounts*

The fair value of financial assets and liabilities together with the carrying value shown in the statement of financial position are analysed as follows;

| | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Carrying value |
| **At 31 December 2020** | UGX '000 | UGX '000 | UGX '000 | UGX '000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | - | - | 10,266,416 | **10,266,416** |
| Net loans and advances | - | - | 57,981,861 | **57,981,861** |
| Investments | - | - | 9,836,740 | **9,836,740** |
| **Financial liabilities** | | | | |
| Borrowings | - | - | 29,996,945 | **29,820,426** |
| Deposits from customers | - | - | 38,850,998 | **38,850,998** |
| Compulsory term deposits | - | - | 1,154,202 | **1,154,202** |
| Other liabilities | - | - | 2,413,982 | **2,413,981** |

| | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Carrying value |
| **At 31 December 2019** | UGX '000 | UGX '000 | UGX '000 | UGX '000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | - | - | 2,174,811 | **2,174,811** |
| Net loans and advances | - | - | 37,924,793 | **37,924,793** |
| Investments | - | - | 9,404,147 | **9,404,147** |
| **Financial liabilities** | | | | |
| Borrowings | - | - | 15,815,590 | **15,815,590** |
| Deposits from customers | - | - | 25,619,610 | **25,619,610** |
| Compulsory term deposits | - | - | 1,068,463 | **1,068,463** |
| Other liabilities | - | - | 774,158 | **774,158** |

The fair value of all other financial assets and liabilities are approximately equal to the carrying value of the assets due to the short-term nature of the instruments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**b) Critical judgments in applying the Company's accounting policies**

In the process of applying the Company's accounting policies, management has made judgments in determining:

- The useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets;
- Useful lives of intangibles assets; and
- The fair value of financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 4. Risk management objectives and policies

### 4.1. Introduction and Overview

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

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

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

### 4.2. 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 the Risk, Assets and Liabilities Committee (RALCO) which are responsible for developing and monitoring the risk management policies in their specified areas. All board committees have both executive and non-executive members and report quarterly 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.

The Company's Board Audit Committee (BAC) 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 BAC is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

### 4.3. Financial risk review

The principal financial instruments used by the Company, from which financial instrument risk arises are as follows;

a) Loans and advances
b) Investments
c) Cash and cash equivalents (including bank overdrafts)
d) Other assets (including receivables from related parties) but excluding prepayments.
e) Deposits (from customers and compulsory term deposits)
f) Borrowings
g) Lease liabilities

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A summary of the financial instruments held by category is provided below:

| | Fair value through profit or loss | | Amortized cost | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | UGX'000 | UGX'000 | UGX'000 | UGX'000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | - | - | 10,266,416 | 2,174,811 |
| Net loans and advances | - | - | 57,981,861 | 37,924,793 |
| Investments | - | - | 9,836,740 | 9,404,147 |
| *Total financial assets* | - | - | 78,085,017 | 49,503,751 |
| **Financial liabilities** | | | | |
| Borrowings | - | - | 29,996,945 | 15,815,590 |
| Deposits from customers | - | - | 38,850,998 | 25,619,610 |
| Compulsory term deposits | - | - | 1,154,202 | 1,068,463 |
| Lease liabilities | - | - | 2,459,406 | 3,022,786 |
| Other liabilities | - | - | 2,413,982 | 774,158 |
| *Total financial liabilities* | - | - | 74,875,533 | 46,300,607 |

a) Credit risk

*i) Overview*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's loans and advances to customers, other banks and investment securities. For risk management reporting purposes, the Company considers all elements of credit risk exposure such as individual obligator default risk, country and sector risk.

Credit risk makes up for the largest part of the company's risk exposures. The company's credit process is governed by centrally established credit policies and procedures, rules and guidelines whose main objective is to maintain a well-diversified credit portfolio. Credit risk policies and procedures are reviewed by management and are approved by the Board of directors on an annual basis.

*ii) Credit quality analysis*

The Company has implemented the following fundamental strategies targeting segregation of duties underlying the credit-granting process:

- an independent credit analysis function;
- credit approval process by a committee made of at least two Management Officers; and
- Independent audit, risk review and compliance function.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The company's credit policy reflects its risk tolerance i.e. credit risk appetite. This, as a minimum, reflects a strategy to grant loans based on various products, economic sectors, client segments and target markets giving due consideration to risks specific to the target markets.

Salient features of the company's risk approval process are delineated below:

- Every extension of credit requires approval by various pre-defined levels of approving authorities as defined in the Delegation of Lending Authorities Policy.
- All business units must apply consistent standards in arriving at their credit decisions as defined by the credit policies authorized and revised yearly by the Board of Directors.
- Every material change to a credit facility requires approval at the appropriate/pre-defined level.
- The disbursement of credit facilities is managed by a centralized Loan Disbursement Department, reporting directly to the Executive Director. This department is also responsible for collateral/documents management including safekeeping.
- The company monitors its credit portfolio on a continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problematic loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure.
- The company follows the guidelines of Bank of Uganda regulations for classification/write off procedures relating to problematic loans.

The following table provides information on the credit quality by product of loans to customers as of 31 December 2020:

| Product Volumes | Stage 1 | Stage 2 | Stage 3 | Grand Total |
|---|---|---|---|---|
| AAL | 1,632,669 | 72,257 | - | **1,704,926** |
| HIL | 5,908,806 | 318,439 | 130,648 | **6,357,893** |
| SLL | 1,518,606 | 31,956 | 133,045 | **1,683,607** |
| SME | 38,718,780 | 3,059,520 | 1,789,859 | **43,568,160** |
| WMT | 5,920,180 | 664,962 | 605,535 | **7,190,677** |
| **Grand Total** | **53,699,041** | **4,147,134** | **2,659,087** | **60,505,262** |
| **IFRS 9 Provisioning by product** | **Stage 1** | **Stage 2** | **Stage 3** | **Grand Total** |
| AAL | 25,878 | 1,564 | - | **27,442** |
| HIL | 203,725 | 12,421 | 27,851 | **243,997** |
| SLL | 92,419 | 1,959 | 126,278 | **220,656** |
| SME | 816,712 | 147,888 | 598,088 | **1,562,688** |
| WMT | 260,493 | 49,873 | 158,251 | **468,617** |
| **Grand Total** | **1,399,227** | **213,705** | **910,468** | **2,523,400** |

**Key:**

| | |
|---|---|
| AAL | - Asset acquisition loans |
| HIL | - Home improvement loans |
| SLL | - Staff liquidity loans |
| SME | - Small medium enterprises |
| WMT | - Woman market traders |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Credit risk also arises from cash and cash equivalents, investments, loans and advances, receivables from related parties as well as off-statement of financial position items. The amount that best represents the Company's exposure to credit risk as at 31 December 2020 is made up as follows:

| | 2020<br>UGX'000 | 2019<br>UGX'000 |
|---|---|---|
| **Credit risk exposures from on-statement of financial position items** | | |
| Cash and cash equivalents | 10,266,416 | 2,174,811 |
| Net loans and advances | 57,981,861 | 37,924,793 |
| Investments | 9,836,740 | 9,404,147 |
| | 78,085,017 | 49,503,751 |

The above represents the worst-case scenario of the Bank's credit risk exposure as at 31 December 2020 and 2019, without taking account of collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

*iii) Collateral held and other credit enhancements*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Management defines, adopts, implements, monitors and controls policies and procedures for covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are land mortgages, vehicles and chattels.

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

| Type of credit exposure | Percentage of exposure that is subject to collateral requirements | | Principal type of security held |
|---|---|---|---|
| | %<br>2020 | %<br>2019 | |
| **Loans and advances to customers** | | | |
| Women Market Trader Loan | 100% | 100% | Land sales agreements, logbooks |
| Home Improvement Loan | 100% | 100% | Land titles |
| SME Loans | 100% | 100% | Land titles, vehicle logbooks |
| Staff Loans - Asset Acquisition | 100% | 100% | Land titles, vehicle logbooks |
| Staff Loans - Liquidity | 0% | 0% | Not secured |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*iv) Concentration of credit risk*

The Company monitors credit risk by economic sector. An analysis of concentrations within the loans and advances are as follows:

| ECONOMIC SECTOR | %age | 2020 UGX'000 | %age | 2019 UGX'000 |
|---|---|---|---|---|
| Agriculture (Crops, Livestock, Poultry), Fishing & Forestry | 5% | 3,269,195 | 6% | 2,256,550 |
| Manufacturing | 2% | 1,439,795 | 2% | 880,860 |
| Trade | 54% | 32,817,226 | 47% | 18,554,160 |
| Transport and Communication | 11% | 6,410,320 | 17% | 6,795,265 |
| Building, Mortgages, Construction and Real Estate | 0.1% | 60,424 | 17% | 6,668,247 |
| Business Services | 0% | - | 2% | 749,202 |
| Community, Social & Other Services | 8% | 5,009,082 | 9% | 3,490,937 |
| Personal Loans and Household Loans | 19% | 11,499,220 | 1% | 294,402 |
| TOTAL | 100% | 60,505,262 | 100% | 39,689,623 |

*v) Amount arising from ECL*

The gross carrying amount of loans and advances with exposure to credit at the balance sheet date is shown in note 15(a).

*vi) Largest Individual loans exceeding 1% of core capital*

| Name | Amount Outstanding UGX'000 | As a % of Core Capital |
|---|---|---|
| Noordin Masaba | 128,844 | 1.08% |
| Ronald Ndawula | 130,390 | 1.09% |
| Annet Kyeswa | 121,641 | 1.02% |
| Joan Nassolo | 124,566 | 1.04% |
| | 505,440 | |

*vii) Current rates offered for our products (Per month)*

| Loan Product | Rate per month | |
|---|---|---|
| MSE Loans from UGX 1 million to ≤ 15 million | 4.50% | First Loan |
| | 4.00% | Repeat Business |
| MSE Loans from over UGX 15 million to ≤ 30 million | 4.00% | First Loan |
| | 3.50% | Repeat Business |
| MSE Loans from over UGX 30 million to maximum authorised by regulation | 3.33% | First Loan |
| | 3.00% | Repeat Business |
| Women Market Trader Loans from UGX 1 million to ≤ 5 million | 4.50% | First Loan |
| | 4.00% | Repeat Business |
| Women Market Trader Loans from over UGX 5 million to ≤ 10 million | 4.17% | First Loan |
| | 3.67% | Repeat Business |
| Women Market Trader Loans from over UGX 10 million to ≤ 15 million | 4.00% | First Loan |
| | 3.50% | Repeat Business |
| Home Improvement Loans | 3.33% | First Loan |
| | 3.00% | Repeat Business |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## b) Liquidity risk

i) Overview

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The company manages liquidity risk by continuously reviewing forecasts and actual cash flows and maintaining banking facilities to cover any shortfalls. This responsibility rests with the Risk Assets and Liabilities Committee (RALCO).
The ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the entity's short, medium and long term funding and liquidity management requirements. The entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching maturity profiles of financial assets and liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's management maintains flexibility in funding by maintaining availability under committed credit lines.

*ii) Exposure to liquidity risk*

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

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| Net liquid assets | 12,774,315 | 11,578,958 |
| Customer deposits and compulsory term deposits | 40,005,200 | 26,688,073 |
| **% Ratio as at 31 December** | 32% | 43% |

The scenario testing at 31st December 2020 indicated a liquidity ratio of 32% (2019: 43%). This is above the minimum requirement of 15% by Bank of Uganda.

*iii) Liquidity gap analysis*

The table below presents the undiscounted cash flows of receivables and payables by the company under financial assets and liabilities by remaining contractual maturities at the financial position date;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | Up to 1 month UGX'000 | 1 to 3 months UGX'000 | 3 to 12 months UGX'000 | Over 12 months UGX'000 | Total UGX'000 |
|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | |
| **Financial assets** | | | | | |
| Cash/cash equivalents | 10,266,416 | - | - | - | 10,266,416 |
| Investments | 2,507,898 | - | 7,328,841 | - | 9,836,739 |
| Loans and advances | 1,135,175 | 848,550 | 7,995,454 | 48,002,682 | 57,981,861 |
| | 13,909,489 | 848,550 | 15,324,295 | 48,002,682 | 78,085,016 |
| **Financial liabilities** | | | | | |
| Customer deposits | 10,128,514 | 8,388,821 | 20,096,118 | 237,545 | 38,850,998 |
| Compulsory term deposits | 16,175 | 147,860 | 387,306 | 602,861 | 1,154,202 |
| Borrowings | 534,220 | 1,499,838 | 8,188,464 | 19,774,423 | 29,996,945 |
| Lease liabilities | 75,412 | 150,824 | 678,707 | 1,554,463 | 2,459,406 |
| Other liabilities | 2,413,981 | - | - | - | 2,413,981 |
| | 13,168,302 | 10,187,343 | 29,350,595 | 22,169,292 | 74,875,532 |
| *Asset-liability gap* | 741,187 | (9,338,793) | (14,026,300) | 25,833,390 | 3,209,484 |

| | Up to 1 month UGX'000 | 1 to 3 months UGX'000 | 3 to 12 months UGX'000 | Over 12 months UGX'000 | Total UGX'000 |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| **Financial assets** | | | | | |
| Cash/cash equivalents | 2,174,811 | - | - | - | 2,174,811 |
| Investments | - | - | 9,404,147 | - | 9,404,147 |
| Loans and advances | 4,625,602 | 5,510,647 | 14,180,930 | 13,607,614 | 37,924,793 |
| | 6,800,413 | 5,510,647 | 23,585,077 | 13,607,614 | 49,503,751 |
| **Financial liabilities** | | | | | |
| Customer deposits | 5,756,524 | 2,791,560 | 15,327,284 | 1,744,242 | 25,619,610 |
| Compulsory term deposits | 130,971 | 156,031 | 401,524 | 379,937 | 1,068,463 |
| Borrowings | 440,410 | 765,235 | 3,685,905 | 10,924,040 | 15,815,590 |
| Lease liabilities | 90,684 | 181,367 | 291,329 | 2,459,406 | 3,022,786 |
| Other liabilities | 774,158 | - | - | | 774,158 |
| | 7,192,747 | 3,894,193 | 19,706,042 | 15,507,625 | 46,300,607 |
| *Asset-liability gap* | (392,334) | 1,616,454 | 3,879,035 | (1,900,011) | 3,203,144 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## c) Market Risk

*i) Overview*

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in market variables such as interest rates, foreign exchange rates and other market factors. The objective of market risk management is to manage and control market risk exposures within the acceptable perimeters while optimising on the return on risk. Overall, the management of market risk rests with the Risk Assets and Liability Committee (RALCO).

The Risk Committee is responsible for the development of detailed risk management policies, subject to review and approval by the board, and for the day-to-day implementation of these policies. The company carries a limited amount of market risk. Tolerance limits for market risk are approved by the board. Risk measurement is currently based on the monitoring of key performance indicators.

*ii) Currency/ Foreign exchange risk*

Currency risk arises on financial instruments denominated in foreign currency. The company has minimum exposure to foreign currency risk as its revenue is largely earned in local currency and operating expenditure is incurred principally in local currency. This exposure does not result in a significant risk as foreign currency assets and liabilities are normally settled within a fairly short time. The main exposure is as a result of borrowings, bank balances and amounts payable to related parties which will be settled in United States Dollars.

The foreign currency risk exposure with respect to the United States Dollar is as follows:

| | Euros | US Dollars | Uganda Shillings | Total |
|---|---|---|---|---|
| | UGX'000 | UGX'000 | UGX'000 | UGX'000 |
| **At 31 December 2020** | | | | |
| **Assets** | | | | |
| Cash and cash equivalents (Note 14) | 1,492,747 | 206,779 | 8,566,890 | 10,266,416 |
| Loans and advances (Note 15) | - | - | 57,981,861 | 57,981,861 |
| Investments (Note 16) | - | - | 9,836,740 | 9,836,740 |
| ***Total assets*** | 1,492,747 | 206,779 | 76,385,491 | 78,085,017 |
| **Liabilities** | | | | |
| Borrowings (Note 23) | 5,398,123 | - | 24,598,822 | 29,996,945 |
| Deposits from customers (Note 25) | - | - | 38,850,998 | 38,850,998 |
| Compulsory term deposits (Note 26) | - | - | 1,154,202 | 1,154,202 |
| Lease liabilities (Note 19 (b)) | - | 1,450,861 | 1,008,545 | 2,459,406 |
| Other liabilities (Note 27) | - | 144,279 | 2,229,703 | 2,373,982 |
| ***Total liabilities*** | 5,398,124 | 1,595,140 | 67,842,270 | 74,835,533 |
| Currency exposure gap | (3,905,377) | (1,388,361) | 8,543,221 | 3,249,484 |
| Core capital | 12,402,207 | 12,402,207 | 12,402,207 | 12,402,207 |
| Foreign currency exposure risk rate | (31)% | (11)% | 69% | 26% |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | Euros | US Dollars | Uganda Shillings | Total |
|---|---|---|---|---|
| | UGX'000 | UGX'000 | UGX'000 | UGX'000 |
| **At 31 December 2019** | | | | |
| **Assets** | | | | |
| Cash and cash equivalents (Note 14) | 1,071,924 | 208,771 | 894,116 | **2,174,811** |
| Loans and advances (Note 15) | - | - | 37,924,793 | **37,924,793** |
| Investments (Note 16) | - | 1,838,157 | 7,565,990 | **9,404,147** |
| ***Total assets*** | 1,071,924 | 2,046,928 | 46,384,899 | **49,503,751** |
| **Liabilities** | | | | |
| Borrowings (Note 23) | 3,957,777 | - | 11,857,813 | **15,815,590** |
| Deposits from customers (Note 25) | - | - | 25,619,610 | **25,619,610** |
| Compulsory term deposits (Note 26) | - | - | 1,068,463 | **1,068,463** |
| Lease liabilities (Note 19 (b)) | - | 1,783,444 | 1,239,342 | **3,022,786** |
| Other liabilities (Note 27) | - | 67,185 | 706,973 | **774,158** |
| ***Total liabilities*** | 3,957,777 | 1,850,629 | 40,492,201 | **46,300,607** |
| Currency exposure gap | (2,885,853) | 196,299 | 5,892,698 | **3,203,144** |
| Core capital | 9,588,448 | 9,588,448 | 9,588,448 | **9,588,448** |
| Foreign currency exposure risk rate | (30)% | 2% | 61% | **33%** |

*Applicable exchange rates*

The following rates applied during the year;

| | Reporting date spot rate | | Average rate | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **UGX** | UGX | **UGX** | UGX |
| **1 Euro** | **4,446** | 4,084 | **4,232** | 4,148 |
| **1 USD** | **3,646** | 3,673 | **3,720** | 3,705 |

*Sensitivity analysis - increase / decrease of 10% in foreign exchange rate*

The following sensitivity analysis shows how profit would change if the market risk variable had been different at the end of the reporting period with all other variables held constant;

| | **2020 Effect on profit before tax** | 2019 Effect on profit before tax |
|---|---|---|
| | **UGX'000** | UGX'000 |
| +/- 10 percent fluctuation in USD/UGX exchange rate | **90,934** | 204,732 |
| +/- 10 percent fluctuation in EUR/UGX exchange rate | **1,736,331** | 288,580 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*iii) Interest rate risk*

The company's operations are subjected to the risk of interest fluctuations to the extent that interest bearing liabilities mature at different times or in different amounts. The company is exposed to interest rate risks arising from financial instruments - lease receivables, loans and borrowings.

In microfinance, the greatest interest rate risk typically occurs when the cost of funds increases faster than the institution can or is willing to adjust its lending rates. The cost of funds can sometimes exceed the interests earned on loans and investments, resulting in a loss. Interest rate risk exposure is greatly diminished because the margins between costs of funds to customer lending rates are sufficient to assure and maintain both financial and operational sustainability.

Management prepares a sensitivity analysis for the reasonably possible change in interest rates over the next 12 months. The Company's strategy to manage interest rate risk is based on long term strategic partnerships that contribute equity and debt which are the primary sources of funds for customer lending activities. The Company's capacity to mobilise savings has also started rising and this is forecast to provide a cheaper source of funding in the long run.

*Interest rate stress test*

The table below demonstrates by how much interest income will drop following a 15% and 30% decline in interest rates;

| 2020 | UGX'000 | 15% Decline | 30% Decline |
|---|---|---|---|
| Total assets | 87,277,740 | 87,277,740 | 87,277,740 |
| Total equity | 12,402,207 | 12,402,207 | 12,402,207 |
| Profit after tax | 2,429,541 | 2,065,110 | 1,700,679 |
| Net interest after impairment losses | 16,057,797 | 13,649,127 | 11,601,758 |
| Other income | 2,738,659 | 2,738,659 | 2,738,659 |
| Total income | 18,796,456 | 16,387,786 | 14,340,417 |
| Total expenses | (16,366,915) | (16,366,915) | (16,366,915) |

| 2019 | UGX'000 | 15% Decline | 30% Decline |
|---|---|---|---|
| Total assets | 56,273,272 | 56,273,272 | 56,273,272 |
| Total equity | 9,972,665 | 9,972,665 | 9,972,665 |
| Profit after tax | 574,909 | 488,672 | 402,436 |
| Net interest after impairment losses | 9,835,733 | 8,360,373 | 6,885,013 |
| Other income | 2,804,220 | 2,847,549 | 2,847,549 |
| Total income | 12,639,953 | 11,207,922 | 9,732,562 |
| Total expenses | (13,276,621) | (13,276,621) | (13,276,621) |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following schedules summarise the exposure to interest rate risks. Included in the table are the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Company does not bear an interest rate risk on off statement of financial position items.

| | Up to 1 month | 1 to 3 months | 3 to 12 months | Over 12 months | Non-interest | Total |
|---|---|---|---|---|---|---|
| | UGX'000 | UGX'000 | UGX'000 | UGX'000 | UGX'000 | UGX'000 |
| **At 31 December 2020** | | | | | | |
| **Financial assets** | | | | | | |
| Cash/cash equivalents | - | - | - | - | 10,266,416 | 10,266,416 |
| Investments | 2,507,898 | - | 7,328,841 | - | - | 9,836,739 |
| Loans and advances | 1,135,175 | 848,550 | 7,995,454 | 48,002,682 | - | 57,981,861 |
| | 3,643,073 | 848,550 | 15,324,295 | 48,002,682 | 10,266,416 | 78,085,016 |
| **Financial liabilities** | | | | | | |
| Customer deposits | 8,541,221 | 8,388,821 | 20,096,118 | 237,545 | 1,587,293 | 38,850,998 |
| Compulsory term deposits | 16,175 | 147,860 | 387,306 | 602,861 | - | 1,154,202 |
| Borrowings | 534,221 | 1,499,838 | 8,188,464 | 19,774,423 | - | 29,996,945 |
| Lease liabilities | 75,412 | 150,824 | 678,707 | 1,554,463 | - | 2,459,406 |
| Other liabilities | - | - | - | - | 2,413,981 | 2,413,981 |
| | 9,167,029 | 10,187,343 | 29,350,595 | 22,169,292 | 4,001,274 | 74,875,532 |
| *Interest sensitivity gap* | (5,523,956) | (9,338,793) | (14,026,300) | 25,833,390 | 6,265,142 | 3,209,484 |

| | Up to 1 month | 1 to 3 months | 3 to 12 months | Over 12 months | Non-interest | Total |
|---|---|---|---|---|---|---|
| | UGX'000 | UGX'000 | UGX'000 | UGX'000 | UGX'000 | UGX'000 |
| **At 31 December 2019** | | | | | | |
| **Financial assets** | | | | | | |
| Cash/cash equivalents | - | - | - | - | 2,174,811 | 2,174,811 |
| Investments | - | 9,336,665 | - | - | 67,482 | 9,404,147 |
| Loans and advances | 4,625,602 | 5,510,647 | 14,180,930 | 13,607,614 | - | 37,924,793 |
| | 4,625,602 | 14,847,312 | 14,180,930 | 13,607,614 | 2,242,293 | 49,503,751 |
| **Financial liabilities** | | | | | | |
| Customer deposits | 5,590,450 | 8,947,309 | 6,379,975 | 732,890 | 3,968,986 | 25,619,610 |
| Compulsory term deposits | 130,971 | 156,031 | 401,524 | 379,937 | - | 1,068,463 |
| Borrowings | 1,149,504 | 1,197,892 | 2,488,014 | 10,637,970 | 342,210 | 15,815,590 |
| Lease liabilities | 90,684 | 181,367 | 291,329 | 2,459,406 | - | 3,022,786 |
| Other liabilities | - | - | - | - | 774,158 | 774,158 |
| | 6,961,609 | 10,482,599 | 9,560,842 | 14,210,203 | 5,085,354 | 46,300,607 |
| *Interest sensitivity gap* | (2,336,007) | 4,364,713 | 4,620,088 | (602,589) | (2,843,061) | 3,203,144 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*Interest rate sensitivity analysis*

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and liabilities to various standard and non-standard interest rate scenarios.

The following sensitivity analysis shows how profit would change if the market interest rate had been different at the end of the reporting period with all other variables held constant;

| | 2020<br>Effect on profit before tax<br>UGX'000 | 2019<br>Effect on profit before tax<br>UGX'000 |
|---|---|---|
| +/- 1 percent point movement in EUR interest rates | 173,633 | 28,858 |
| +/- 10 percent fluctuation in USD interest rates | 90,934 | 204,732 |

i) **Non-financial risks**

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

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

***ii) Business risk*** - is the risk of adverse impact resulting from a weak competitive position or from poor choice of strategy, markets, products, activities or structures. Major potential sources of business risk include: revenue volatility due to factors outside the Company's control; inflexible cost structures; uncompetitive products or pricing; and structural inefficiencies.

The Company is continuously reinforcing its commitment to the management of these risks and will continue to enhance its non-financial practices and methodologies where appropriate and will implement advanced non-financial risk management to enhance shareholder value and the quality of customer service.

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

A consistent approach to the identification and assessment of key risks and controls is undertaken across all business units. Scenario analysis and self-assessment techniques are widely used by business management for risk identification and evaluation of control effectiveness and monitoring capability. Business management determine whether particular risks are effectively managed within business risk appetite or otherwise take remedial action.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Company's Internal Audit function also provides an assurance role for non-financial risk control across the organisation to the Board and senior management.

### 4.4. Capital risk management

Capital risk is the risk that the Company is unable to maintain adequate levels of capital which could lead to an inability to support business activity or to meet covenanted capital levels. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns to its shareholders and to maintain an optimal capital structure to reduce the cost of capital.

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

- Comply with the capital requirements as per the Microfinance Deposit-taking Institutions Act, 2003 and the Microfinance Deposit-taking Institutions (Capital Adequacy) Regulations, 2004;
- Safeguard the company as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders;
- 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 Bank of Uganda for supervisory purposes. The required information is filed with Bank of Uganda on a monthly basis.

The company manages its capital to meet the Microfinance Deposit-taking Institutions Act, 2003 requirements listed as follows:

(a) hold the minimum level of regulatory core capital of UGX 500 million;
(b) maintain core capital of not less than 15% of the risk-weighted assets; and
(c) maintain total capital of not less than 20% of risk-weighted assets.

The Company's total regulatory capital is divided into two tiers namely;

i) Core capital - Tier 1, which includes permanent shareholders' equity in the form of issued and fully paid ordinary shares, including retained reserves approved by the Central Bank.

ii) Supplementary capital - Tier 2, which includes general provisions (up to 1% of loan portfolio and 1.25% of Gross Risk-Weighted Assets, subordinated debts (up to 50% of core capital) and other reserves.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The company's regulatory capital position as at 31 December 2020 and 2019 was as follows:

| | Note | 2020<br>UGX'000 | 2019<br>UGX'000 |
|---|---|---|---|
| **Core capital - Tier 1** | | | |
| Paid up share capital | 21 | 24,263,683 | 24,263,683 |
| Accumulated losses at end of year | | (11,861,476) | (14,340,263) |
| | | 12,402,207 | 9,923,420 |
| **Supplementary capital - Tier 2** | | | |
| General provisions | 22 | 553,360 | 363,753 |
| **Total capital (Core plus Supplementary capital)** | | 12,955,567 | 10,287,173 |
| **Capital requirement basis** | | | |
| Deposits with Commercial banks in Uganda (20%) | | 3,882,141 | 348,303 |
| Net loans outstanding (Outstanding loans minus impairment provisions) | | 57,981,861 | 37,924,793 |
| Net fixed assets | | 7,386,736 | 4,233,630 |
| Other assets | | 1,805,987 | 2,076,626 |
| **Total risk weighted assets** | | 71,056,725 | 44,583,352 |
| Tier 1 Capital to total risk-weighted assets | | 17% | 22% |
| **Total Capital to total risk weighted assets** | | 18% | 23% |

The total capital adequacy ratio was at 18% (2019: 23%) below the required minimum 20% (2019: 20%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| **5. Interest income** | | |
| Interest on loans and advances | **17,787,861** | 10,388,218 |
| **6. Interest expense** | | |
| Interest on borrowings | **3,037,923** | 2,161,682 |
| Interest on deposits from customers | **3,784,067** | 2,180,016 |
| | **6,821,990** | 4,341,698 |
| **7. Net fee and commission income** | | |
| Loan fees | **2,339,046** | 2,632,152 |
| Monthly account management fees | **99,653** | 89,351 |
| Caveat, statutory declaration and legal registration fees | **(8,170)** | 900,950 |
| Valuation and boundary opening | **282,297** | 81,616 |
| Credit Reference Bureau related charges | **(65,585)** | (33,335) |
| Other charges | **(59,172)** | (70,596) |
| Relationship Officers' facilitation | **(36,437)** | (182,322) |
| Loan recovery expenses | **(59,975)** | (135,662) |
| Penalty Waivers | **(632,093)** | (1,267,141) |
| | **1,859,564** | 2,015,013 |
| **8. Investment income** | | |
| Interest on Investments | **726,117** | 734,383 |
| **9. Other income** | | |
| Recovery of loans written off | **66,323** | 208,113 |
| Foreign exchange gain | **16,996** | 122,705 |
| Write back of assets | **-** | 63,593 |
| Others | **69,659** | 394,796 |
| | **152,978** | 789,207 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|---|
| 10(a) | **Staff costs** | | |
| | Salaries and wages | 3,862,542 | 4,012,363 |
| | Social security contribution | 406,721 | 401,356 |
| | Medical and funeral | 153,220 | 163,462 |
| | Staff recruitment | - | 178 |
| | Other staff expenses | 84,826 | 9,344 |
| | Training | 10,103 | 46,259 |
| | | 4,517,412 | 4,632,962 |
| 10(b) | **Administrative costs** | | |
| | Stationery, telephone & e-mail | 417,268 | 343,989 |
| | Consultancy fees | 179,616 | 50,000 |
| | Advertising and promotion | 132,096 | 110,255 |
| | Insurance | 134,724 | 113,891 |
| | Foreign exchange Loss | 246,123 | - |
| | ECL adjustments | 546,102 | - |
| | Other administrative expenses | 212,887 | 237,767 |
| | Equity transaction advisory fees | 59,303 | - |
| | Motor vehicle expenses | 138,564 | 141,866 |
| | Audit fees | 129,068 | 62,072 |
| | Travel, transportation, lodging and per diem | 41,080 | 19,531 |
| | Board meeting expenses | 26,966 | 38,076 |
| | Other legal and professional fees | 256,153 | 139,222 |
| | Write off property and equipment | - | 3,609 |
| | Loss on disposal of fixed assets | 28,847 | 170,828 |
| | Write off grant's receivable | - | 136,758 |
| | | 2,548,797 | 1,567,864 |
| 10(c) | **Operational costs** | | |
| | Office rent, utilities and security | 496,476 | 293,483 |
| | Core banking system migration adjustments | 576,630 | - |
| | Software support costs and system maintenance | 183,115 | 149,095 |
| | Amortization of right-of-use asset | 719,611 | 606,757 |
| | PPE Depreciation and intangibles amortization | 287,822 | 261,821 |
| | | 2,263,654 | 1,311,156 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| **11. Finance costs** | | |
| Interest on lease liabilities | **215,062** | 211,364 |

**12. Profit before tax**

The profit before tax is arrived at after the following items have been charged:

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| Depreciation & amortization (Note 10 (c)) | 287,822 | 261,821 |
| Salaries and employee benefits (Note 10 (a)) | 4,517,412 | 4,632,962 |
| Impairment losses on loans and advances (Note 15(b)) | 1,730,064 | 1,286,868 |

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| **13. Taxation** | | |
| **a) Income tax charge** | | |
| Current tax | - | - |
| Deferred tax (credit)/ charge (Note 24) | - | - |
| | - | - |

**b) Reconciliation of tax charge**

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

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| Profit before tax | **2,429,541** | 574,909 |
| Tax calculated at a tax rate of 30% | **728,862** | 172,473 |
| *Tax effect of:* | | |
| Expenses/ (income) not deductible for tax purposes | **(303,839)** | 65,386 |
| Unrecognised deferred tax | **(425,023)** | (237,859) |
| Tax charge | - | - |

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| **c) Current tax recoverable** | | |
| At January 1 | **459,266** | 359,151 |
| Tax charge for the year | - | - |
| Withholding tax paid during the year | **13,394** | - |
| Payments during the year | - | 100,115 |
| At December 31 | **472,660** | 459,266 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 14. Cash and cash equivalents

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| Cash at hand | 619,820 | 219,222 |
| Mobile money | 72,631 | 214,072 |
| Cash at bank | 9,573,965 | 1,741,517 |
| | 10,266,416 | 2,174,811 |

The company is not exposed to credit risk on bank balances as these are held with sound financial institutions.

INCOFIN one of our Lender disbursed USD 1 Million on 31 December 2020 drastically increasing the Cash at Bank balance.

14a) Cash at bank is held in the following financial institutions;

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| Standard Chartered Bank (U) Limited | 4,337,882 | 200,192 |
| Bank of Africa (U) Limited | 1,957 | 56,306 |
| DFCU Bank (U) Limited | 690,691 | 68,492 |
| KCB Bank (U) Limited | 1,072,564 | 278,944 |
| ABSA Bank (U) Limited | - | 12,258 |
| NCBA Bank (U) Limited | 1,452,937 | 1,125,325 |
| Cairo Bank (U) Limited | 988,716 | - |
| EXIM Bank (U) Limited | 933,227 | - |
| Tropical Bank (U) Limited | 126,008 | - |
| ECL on bank balances | (30,017) | - |
| | 9,573,965 | 1,741,517 |

14b) For the purpose of the statement of cash flows, the year-end cash and cash equivalents comprise the balances below;

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| Investments (Note 16 (c)) | 2,507,898 | - |
| Overdraft (Note 23 (a) (i)) | (189,431) | - |
| Cash at hand, mobile money and bank balances (Note 14) | 10,266,416 | 2,174,811 |
| | 12,584,883 | 2,174,811 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|
| **15. Loans and advances** | | |
| **a) Net loans and advances** | | |
| Gross loans and advances | **60,505,262** | 39,689,622 |
| Less: Impairment provision for loans and advances | **(2,523,401)** | (1,764,829) |
| **Net loans and advances** | **57,981,861** | 37,924,793 |

The carrying values of loans and advances measured at amortised cost approximate their fair values. All loans and advances are denominated in Uganda Shillings.

The weighted average effective interest rate on Uganda Shilling Loans and advances at 31 December 2020 was 35.6% (2019: 39.59%)

*Impairment of loans and advances*

The Company applies the IFRS 9 general approach to measuring expected credit losses which uses a lifetime expected loss allowance for all loans and advances and accrued income.

To measure the expected credit losses, loans and advances have been grouped based on shared credit risk characteristics and the days past due i.e. stage 1 - performing loans and advances; stage 2 - underperforming loans and advances; and stage 3 - credit impaired loans and advances. The accrued income relates to operating loans and have substantially the same risk characteristics as the loans and advances for the same types of contracts. The Company has therefore concluded that the expected loss rates for loans and advances are a reasonable approximation of the loss rates for the accrued income.

The expected loss rates are based on the portfolio at risk (probability of default), loss given default rates and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the leases. The Company has identified the following to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors;

- **Loss given default (LGD)** is the loss a bank or other financial institution loses when a borrower defaults on a loan. The most frequently used method to calculate this loss compares actual total losses to the total amount of potential exposure sustained at the time that a loan goes into default

- **Exposure at Default:** This is an estimate of the exposure at a future date, taking into account expected changes in the exposure after reporting date, including repayments of principal, interest, and expected drawdowns on committed facilities

- **Probability of Default:** This is an estimate of the likelihood of default over a given time horizon

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 15. Loans and advances (Continued)

On that basis, the loss allowance as at 31 December 2020 (on adoption of IFRS 9) was determined as follows for loans and advances:

| | 12-month expected credit losses (Stage 1) | Lifetime expected credit losses (Stage 2) | Lifetime expected credit losses (Stage 3) | Total |
|---|---|---|---|---|
| | UGX'000 | UGX'000 | UGX'000 | UGX'000 |
| **At 31 December 2020** | | | | |
| *Total loans and advances* | 53,699,041 | 4,147,134 | 2,659,087 | 60,505,262 |
| *Loss allowance* | (1,399,227) | (213,705) | (910,468) | (2,523,400) |
| **At 31 December 2019** | | | | |
| *Total loans and advances* | 38,036,373 | 1,614,441 | 38,809 | 39,689,623 |
| *Loss allowance* | (1,671,142) | (54,878) | (38,809) | (1,764,829) |

The impairment provision split between the 12 months expected credit losses and the lifetime expected credit losses is as follows;

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| 12 Months ECL | **1,612,932** | 1,671,142 |
| Lifetime ECL | **910,468** | 93,686 |
| **At December 31** | **2,523,400** | 1,764,828 |

The closing loss allowances for loans and advances as at 31 December 2020 reconciled to the opening loss allowances as follows;

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| At January 1 | **1,764,828** | 925,887 |
| Increase in loss allowance recognized in profit or loss during the year | **758,572** | 838,941 |
| **At December 31** | **2,523,400** | 1,764,828 |

Loans and advances and interest receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include amongst others, the failure of a debtor to engage in a repayment plan with the Company and a failure to make contractual payments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 15. Loans and advances (Continued)

Impairment losses on loans and advances and interest receivable are presented as net impairment losses within operating profit after due consideration to the fair value of any security available. Subsequent recoveries of amounts previously written off are credited against the same line item.

### b) Net Impairment charge charged to statement of comprehensive income

The reconciliation of the movement in the impairment provision and write offs charged to the income statement are as follows;

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| Increase in impairment of loans for the year | 758,572 | 838,941 |
| Increase in impairment of cash balances for the year (Note 14 (a)) | 30,017 | - |
| Increase in provision for receivables (Note 17) | 563,482 | - |
| Loans written off during the year | 377,993 | 447,927 |
| | 1,730,064 | 1,286,868 |

### 16a) Investments

| | | |
|---|---|---|
| Fixed term deposits with Bank of Africa (U) Limited | 510,212 | 509,897 |
| Fixed term deposits with KCB Uganda Limited | 806,197 | 4,046,976 |
| Fixed term deposits with NCBA bank | - | 4,038,961 |
| Fixed term deposits with Stan Chart | - | 808,313 |
| Fixed term deposits with Cairo Bank | 7,249,782 | - |
| Fixed term deposits with EXIM Bank (U) Ltd | 1,268,549 | - |
| | 9,836,740 | 9,404,147 |

16 b) The movement in investments is as follows;

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| At 1 January | 9,404,147 | 4,025,216 |
| Additional investments made during the year | 29,060,000 | 16,181,875 |
| Amounts redeemed on maturity | (28,896,665) | (10,745,210) |
| Interest from investments | 726,117 | 734,383 |
| Interest received | (456,859) | (792,117) |
| **At 31 December** | 9,836,740 | 9,404,147 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 c) For the purpose of the statement of cash flows, the year-end cash and cash equivalents comprise the balances below;

| | Maturity | 2020<br>UGX'000 |
|---|---|---|
| Fixed term deposits with Cairo Bank | 0-1 Month | **2,507,898** |

| | 2020<br>UGX'000 | 2019<br>UGX'000 |
|---|---|---|
| **17. Other assets** | | |
| Other receivables | 923,251 | 91,396 |
| Less: provision for Other receivables | (563,483) | - |
| | 359,768 | 91,396 |
| Receivables from related parties | 76,850 | 76,295 |
| Prepaid expenses - Note 17(a) | 883,116 | 609,927 |
| Project advance | - | 1,282,334 |
| Inventory - consumables | 13,593 | 16,674 |
| | 1,333,327 | 2,076,626 |

In the opinion of the directors, the carrying amounts of the other assets approximate their fair value and do not contain impaired assets.

| | 2020<br>UGX'000 | 2019<br>UGX'000 |
|---|---|---|
| **17(a) Prepaid expenses** | | |
| Prepaid insurance | 72,836 | 50,326 |
| Prepaid-licenses and support | 35,249 | 27,768 |
| Prepaid internet | 1,169 | 1,103 |
| Prepaid-service charge | 457,788 | 332,626 |
| Prepaid-other | 253,067 | 138,388 |
| Prepaid purchases | 63,007 | 59,716 |
| | 883,116 | 609,927 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 18. Property and equipment

| | Generators UGX'000 | Motor vehicles UGX'000 | Furniture and fittings UGX'000 | Office equipment UGX'000 | Computer equipment UGX'000 | Leasehold improvements UGX'000 | Total UGX'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2019 | 59,574 | 363,079 | 368,371 | 479,426 | 553,435 | 764,977 | 2,588,862 |
| Prior year adjustment* | - | - | - | - | - | *63,593 | 63,593 |
| Additions | - | 13,335 | 38,920 | 50,647 | 137,686 | 313,546 | 554,134 |
| Disposals | - | (4,500) | - | - | - | (324,471) | (328,971) |
| At 31 December 2019 | 59,574 | 371,914 | 407,291 | 530,073 | 691,121 | 817,645 | 2,877,618 |
| adjustment | - | - | - | (6,066) | (2,575) | - | (8,641) |
| Additions | - | 25,543 | 16,027 | 127,037 | 74,142 | 20,553 | 263,302 |
| Disposals | - | - | - | (10,173) | (61,886) | - | (72,059) |
| **At 31 December 2020** | **59,574** | **397,457** | **423,318** | **640,871** | **700,802** | **838,198** | **3,060,220** |
| **Depreciation** | | | | | | | |
| At 1 January 2019 | 59,574 | 294,568 | 289,386 | 320,535 | 370,051 | 376,039 | 1,710,152 |
| Charge for the year | - | 12,159 | 13,494 | 51,332 | 64,356 | 105,485 | 246,826 |
| Eliminated on disposal | - | (891) | - | - | - | (129,689) | (130,580) |
| At 31 December 2019 | 59,574 | 305,836 | 302,881 | 371,867 | 434,407 | 351,835 | 1,826,400 |
| Charge for the year | - | 14,024 | 15,644 | 64,501 | 85,799 | 89,179 | 269,147 |
| Adjustment | - | - | - | (14,722) | (429) | - | (15,151) |
| Eliminated on disposal | - | - | - | (5,771) | (53,460) | - | (59,231) |
| **At 31 December 2020** | **59,574** | **319,860** | **318,525** | **415,875** | **466,317** | **441,014** | **2,021,165** |
| **Net book value** | | | | | | | |
| **At 31 December 2020** | - | 77,596 | 104,793 | 224,996 | 234,484 | 397,183 | 1,039,052 |
| At December 31, 2019 | - | 66,078 | 104,410 | 158,206 | 256,714 | 465,809 | 1,051,217 |

*The prior year adjustment relates to a 2018 audit adjustment posted to write down the cost of leasehold improvements in error. This was reversed in the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 19. Leases

Under IFRS 16, the Company recognized the following right-of-use assets and lease liabilities arising from lease of property for its head office, branches and business centres.

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| **(a) Right-of-use asset** | | |
| **Cost** | | |
| At 1 January | **3,731,951** | 1,442,857 |
| Additions | - | 2,289,094 |
| **At 31 December** | **3,731,951** | 3,731,951 |
| **Amortization** | | |
| **At 1 January** | **(606,757)** | - |
| Amortization | **(719,611)** | (606,757) |
| **At 31 December** | **(1,326,368)** | (606,757) |
| **Net Book Value** | **2,405,583** | 3,125,194 |

| | 2020 | 2019 |
|---|---|---|
| **(b) Lease liabilities** | | |
| At 1 January | **3,022,786** | 1,442,857 |
| Additions | - | 2,289,094 |
| Interest expense | **215,062** | 211,364 |
| Prior year adjustment* | **211,221** | - |
| Lease payments | **(989,663)** | (920,529) |
| **At 31 December** | **2,459,406** | 3,022,786 |

*The prior year adjustment relates to a prior audit adjustment posted to reduce the lease liability in error. This was reversed in the current year

The company entered into commercial leases for premises. These leases have an average life of five years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. The finance lease liabilities at year end mature as follows;

| | Up to 3 months | Between 3 and 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows |
|---|---|---|---|---|---|---|
| | UGX'000 | UGX'000 | UGX'000 | UGX'000 | UGX'000 | UGX'000 |
| At 31 December 2020 | | | | | | |
| Lease liabilities | 226,236 | 678,707 | 904,943 | 649,520 | - | **2,459,406** |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| 20. Intangible assets | Other software UGX'000 | Ethix Core banking system UGX'000 | Total UGX'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2019 | 187,658 | - | 187,658 |
| Additions | 17,767 | - | 17,767 |
| At 31 December 2019 | 205,425 | - | 205,425 |
| Additions | 52,709 | 3,879,156 | 3,931,865 |
| Written off | (111,054) | - | (111,054) |
| At 31 December 2020 | 147,080 | 3,879,156 | 4,026,236 |
| **Amortization** | | | |
| At 1 January 2019 | 133,213 | - | 133,213 |
| Charge for the year | 14,995 | - | 14,995 |
| At 31 December 2019 | 148,208 | - | 148,208 |
| Charge for the year | 18,592 | - | 18,592 |
| Write off | (82,665) | - | (82,665) |
| At 31 December 2020 | 84,135 | - | 84,135 |
| **Net book value** | | | |
| At 31 December 2020 | 62,945 | 3,879,156 | 3,942,101 |
| At 31 December 2019 | 57,217 | - | 57,217 |

Intangible assets relate to software and are amortised over one hundred twenty months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 21. Share capital

### a) Authorized, issued and fully paid

| | No of Authorized shares Units'000 | No of Issued and fully paid shares Units'000 | Issued and fully paid share capital 2020 UGX'000 | Issued and fully paid share capital 2019 UGX'000 |
|---|---|---|---|---|
| Ordinary shares at a nominal value of UGX 1 | 10,575,000 | 10,575,000 | **10,575,000** | 10,575,000 |
| Class A Ordinary shares at a nominal value of UGX 0.248 | 18,951,613 | 18,951,613 | **4,700,000** | 4,700,000 |
| Class B Ordinary shares at a nominal value of UGX 0.081 | 184,211,111 | 110,971,395 | **8,988,683** | 8,988,683 |
| | | | **24,263,683** | 24,263,683 |

The reconciliation of share capital to the number of shares held and nominal value of each share is as follows;

| At 31 December 2020 | Share price UGX | Number of shares Units'000 | Total share capital UGX'000 |
|---|---|---|---|
| Ordinary shares | 1.000 | 10,575,000 | **10,575,000** |
| Class A ordinary shares | 0.248 | 18,951,613 | **4,700,000** |
| Class B ordinary shares | 0.081 | 110,971,395 | **8,988,683** |
| **Total** | | 140,498,008 | **24,263,683** |

| At 31 December 2019 | Share price UGX | Number of shares Units'000 | Total share capital UGX'000 |
|---|---|---|---|
| Ordinary shares | 1.000 | 10,575,000 | **10,575,000** |
| Class A ordinary shares | 0.248 | 18,951,613 | **4,700,000** |
| Class B ordinary shares | 0.081 | 110,971,395 | **8,988,683** |
| **Total** | | 140,498,008 | **24,263,683** |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## b) Reconciliation of share capital to shareholders

The authorised, issued and fully paid share capital comprises the following capital structure;

| At 31 December 2020 | Ordinary shares capital UGX'000 | Class A ordinary shares capital UGX'000 | Class B ordinary shares capital UGX'000 | Total share capital UGX'000 | % of paid up shares |
|---|---|---|---|---|---|
| Développement International Desjardins | 5,802,344 | 2,075,367 | - | 7,877,711 | 32.5 |
| Africlnvest Financial Sector Ltd. | 2,241,406 | 1,561,538 | 4,494,341 | 8,297,285 | 34.2 |
| Uganda Gatsby Trust | 1,125,000 | - | - | 1,125,000 | 4.6 |
| Belgian Investment Company for Developing Countries | 1,406,250 | 1,063,095 | 4,494,342 | 6,963,687 | 28.7 |
| | 10,575,000 | 4,700,000 | 8,988,683 | 24,263,683 | 100 |

| At 31 December 2019 | Ordinary shares capital UGX'000 | Class A ordinary shares capital UGX'000 | Class B ordinary shares capital UGX'000 | Total share capital UGX'000 | % of paid up shares |
|---|---|---|---|---|---|
| Développement International Desjardins | 5,802,344 | 2,075,367 | - | 7,877,711 | 32.5 |
| Africlnvest Financial Sector Ltd. | 2,241,406 | 1,561,538 | 4,494,341 | 8,297,285 | 34.2 |
| Uganda Gatsby Trust | 1,125,000 | - | - | 1,125,000 | 4.6 |
| Belgian Investment Company for Developing Countries | 1,406,250 | 1,063,095 | 4,494,342 | 6,963,687 | 28.7 |
| | 10,575,000 | 4,700,000 | 8,988,683 | 24,263,683 | 100 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 22. Regulatory reserve

The regulatory reserve represents an appropriation from retained earnings to comply with Bank of Uganda's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognized in accordance with the MDI's accounting policy. The reserve is non-distributable and as at year end, the movement in the regulatory reserve was as follows:

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| At 1 January | 49,246 | 96,361 |
| Transfer to loan loss reserve | - | (47,115) |
| Transfer to retained earnings | (49,246) | - |
| At 31 December | - | 49,246 |

The regulatory Credit risk reserve is analyzed as follows;

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| **Provisions as per Microfinance Deposit-taking Institutions (Asset Quality) Regulations, 2004.** | | |
| Specific provisions | 1,475,266 | 1,450,322 |
| General provisions | 553,360 | 363,753 |
| | 2,028,626 | 1,814,075 |
| **Provisions as per IFRS 9** | | |
| Impairment provision on loans and advances | 2,523,400 | (1,764,829) |
| **Regulatory credit risk reserve at end of year** | - | 49,246 |

## 23. Borrowings

### a) Borrowing balances

The borrowings were made up as follows:

| | | 2020 | 2019 |
|---|---|---|---|
| Bank of Africa Uganda Limited loan | (i) | 987,638 | 847,935 |
| Bank of Africa Uganda Limited overdraft | (i) | 189,431 | - |
| Stromme Foundation East Africa | (ii) | 2,815,622 | 3,543,357 |
| KCB Bank Uganda Limited | (iii) | 1,135,954 | 3,911,311 |
| Luxembourg Microfinance Development Fund | (iv) | 3,555,210 | 3,555,210 |
| Lend A Hand | (v) | 5,398,123 | 3,957,777 |
| Cairo Bank | (vi) | 8,557,084 | - |
| EXIM Bank | (vii) | 3,709,908 | - |
| INCOFIN | (viii) | 3,647,975 | - |
| | | 29,996,945 | 15,815,590 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*(i) Bank of Africa Uganda Limited*

EFC obtained a loan of 990 Million from Bank of Africa on 26 March 2019 for 48 months at a rate of 364 Treasury bill rate plus 5% with a floor rate of 17.58%. Principal repayment is on a quarterly basis with outstanding principal as at 31 December 2020 of UGX 845 million. However the repayment of the facility principal instalments and interest for the term loan was deferred for six (6) months from July 2020. The loan is secured by a pledge on loans and advances plus a cash cover of UGX 500 million.

During the year ended December 2020, the MDI obtained an overdraft facility of 700 million.

*(ii) Stromme Foundation East Africa*

A total of UGX 1.5 billion was received on 12 July 2017 for 36 months to specifically finance the home improvement loan (UGX 1 billion at 18%) and women market trader product (UGX 500 million at 19%). Additional UGX 3 billion was received on 16 May 2019 for 48 months (UGX 1.2 billion at 19.5%; UGX 1 billion at 18.6% and UGX 800m at 18%). The total loan is secured by a pledge on loans and advances. The outstanding principal as at 31 December 2020 stood at UGX 2.75 billion payable on a quarterly basis.

*(iii) KCB Bank Uganda Limited*

EFC obtained a loan of UGX 5 billion for 36 months received in two installments, one on 28 September 2018 and 19 November 2018 and an overdraft facility of UGX 1 billion. Interest rate for the facility is 16.5% with quarterly principal repayments effective May 2019. The outstanding principal as at 31 December 2020 was UGX 1.11 billion and the loan is secured by a pledge on loans and advances plus a cash cover of UGX 2 billion.

*(iv) Luxembourg Microfinance Development Fund*

A loan of 3.4 billion was obtained from Luxembourg Microfinance Development Fund (ADA Microfinance) on 5 April 2019 for 24 months at a rate of 20.6%. Loan repayments to be made in two equal installments in the $18^{th}$ and $24^{th}$ month. A repayment moratorium of 6 months was granted on the first installment during the year due to the COVID 19 Pandemic. The outstanding principal as at 31 December 2020 was UGX 3.4 billion.

*(v) Lend A Hand*

A loan of Euros 2.5 million was approved by Lend A Hand at a rate of 4%. A total of Euros 1,697,200 had been drawn by 31 December 2020 and the outstanding principal at 31 December 2020 was Euros 1,201,456.

*(vi) Cairo Bank Uganda Ltd*

A loan of UGX 9 billion was obtained from Cairo Bank Uganda Ltd on 2 July 2020 for 36 months from date of disbursement at a rate of 16.5%. Loan repayments to be made quarterly as per repayment schedule. The Term loan is secured by a lien on EFC's fixed deposits with Cairo bank and a pari-passu debenture charge of UGX 8.8 billion over EFC's loan book. The outstanding principal as at 31 December 2020 was UGX 8.4 billion.

*(vii) EXIM Bank Uganda Ltd*

A Term loan of UGX 4 billion and an Overdraft facility of UGX 200 million was obtained from EXIM Bank Uganda Ltd on 13 July 2020. The term loan is available for 48 months from date of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

disbursement at a rate of 16.5% (EXIM PLR 22.5% - 6%) on a reducing balance basis while the Overdraft facility is available for 12 months (renewable) at a rate of 16.5% (EXIM PLR 22.5% - 6%). The Loan and overdraft facility are secured against a 30% cash margin (UGX 1.2 billion) and specific charge on performing loans covering 150% of bank exposure i.e., UGX 6.3 billion. The outstanding principal as at 31 December 2020 was UGX 3.6 billion.

***(viii) agRIF cooperatief U.A (INCOFIN)***

EFC obtained a loan of USD 2 million (UGX equivalent) from agRIF cooperatief U.A (INCOFIN) disbursed in two equal tranches (first tranche disbursed in December 2020 and second tranche to be disbursed before 30 April 2021) at a rate of 19.5%. The Loan tenor is 36 months after first disbursement date and interest paid on a half yearly basis while repayment of principal will be 50% to be paid 24 months after first disbursement date while the other 50% will be paid 36 months after first disbursement The outstanding principal as at 31 December 2020 was UGX 3.6 billion.

The maturity analysis of the loans is as follows;

| | Due in 1 year | Due between 2 to 4 years | Total |
|---|---|---|---|
| | UGX'000 | UGX'000 | UGX'000 |
| Bank of Africa Uganda Ltd | 474,773 | 702,296 | **1,177,069** |
| Stromme Foundation East Africa | 815,622 | 2,000,000 | **2,815,622** |
| KCB Bank Uganda Limited | 1,135,954 | - | **1,135,954** |
| Luxembourg Microfinance Development Fund | 1,855,210 | 1,700,000 | **3,555,210** |
| Lend A Hand | 3,036,849 | 2,361,275 | **5,398,124** |
| Cairo Bank Uganda Ltd | 2,789,892 | 5,767,192 | **8,557,084** |
| EXIM Bank | 836,646 | 2,873,262 | **3,709,908** |
| INCOFIN | - | 3,647,975 | **3,647,975** |
| | 10,944,944 | 19,052,001 | 29,996,945 |

**b) The changes in borrowings during the year are reconciled as follows:**

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| At January 1 | **15,815,590** | 8,239,902 |
| Additional loan receipts during the year | **19,753,120** | 11,697,515 |
| Interest expense during the year | **3,037,923** | 2,161,682 |
| Changes due to exchange rates | **275,407** | (56,140) |
| Payments - Principal | **(6,125,653)** | (4,174,402) |
| Payments - Interest | **(2,759,442)** | (2,052,967) |
| **At December 31** | **29,996,945** | 15,815,590 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 24. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2019: 30%). The movement on the deferred tax account is as follows:

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| | **Unrecognised** | Unrecognised |
| At January 1 | **(4,714,386)** | (4,952,245) |
| (Credit)/ Charge to statement of profit or loss | **425,023** | 237,859 |
| At December 31 | **(4,289,363)** | (4,714,386) |

The movement in the deferred tax liability is attributable to the following items;

| | At 1 January 2020 | (Credit)/ Charge to statement of profit or loss | At 31 December 2020 |
|---|---|---|---|
| | UGX'000 | UGX'000 | UGX'000 |
| | Unrecognised | Unrecognised | Unrecognised |
| **Deferred tax liabilities** | | | |
| Equipment | 8,041 | (8,985) | (944) |
| **Deferred tax assets** | | | |
| Impairment provision | (11,083) | (1,111,329) | (1,122,412) |
| Tax losses carried forward | (4,711,344) | 1,545,337 | (3,166,007) |
| | (4,722,427) | 434,008 | (4,288,419) |
| **Deferred tax (assets)** | (4,714,386) | 425,023 | (4,289,363) |

Deferred tax assets on tax losses carried forward are only recognised to the extent of certainty of availability of sufficient future taxable profits to utilise such losses against. An assessment of the company as a going concern shows that although the company forecasts profitability in the coming financial years, its ability to achieve the forecasts is dependent on continued support from the shareholders and a favourable economic environment which cannot be predicted with absolute certainty.

The deferred tax asset of UGX 4.2 billion (2019: UGX 4.7 billion) has therefore not been recognised in these financial statements due to uncertainty over its recoverability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2020<br>UGX'000 | 2019<br>UGX'000 |
|---|---|---|
| **25. Deposits from customers** | | |
| Regular savings | 1,587,293 | 1,792,664 |
| Premium savings | 1,841,973 | 1,963,693 |
| Voluntary term deposits | 35,421,732 | 21,863,253 |
| | 38,850,998 | 25,619,610 |

The weighted average effective interest rate on interest bearing savings accounts and time deposits as at 31 December 2020 was 11.3% (2019: 9%) on minimum balance.

**26. Compulsory term deposits**

Compulsory term deposits are interest bearing deposits acting as cash collateral for loans disbursed to customers. These are redeemable upon completion of the loan and can be used to offset the loan repayments at a future date.

| | 2020<br>UGX'000 | 2019<br>UGX'000 |
|---|---|---|
| At 31 December | 1,154,202 | 1,068,463 |

| | 2020<br>UGX'000 | 2019<br>UGX'000 |
|---|---|---|
| **27. Other liabilities** | | |
| Bills payable | 211,427 | 148,077 |
| Pay As you Earn | 842,979 | 108,703 |
| National Social Security Fund contributions | 376,943 | 57,117 |
| Life insurance | 3,572 | 36,322 |
| Other taxes payable | 21,741 | 18,886 |
| Accounts payable car tracker | 63,341 | 58,637 |
| Comprehensive insurance payable | 37,866 | 98,357 |
| Withholding tax payable | 42,581 | 18,710 |
| Accruals | 192,913 | 102,427 |
| Deferred income | 509,135 | 106,922 |
| Loan fees payable | 71,484 | - |
| | 2,373,982 | 754,158 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The carrying amounts of the company's other liabilities are denominated in the following currencies:

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| Uganda Shillings | 2,229,702 | 686,973 |
| US Dollars | 144,279 | 67,185 |
| | 2,373,981 | 754,158 |

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |

## 28. Provision

| | | |
|---|---|---|
| Provision for legal disputes | 40,000 | 20,000 |

The MDI has provided for three cases in which it is being sued by three of its former loan holders in three separate court cases and the provision has been made in the event that the MDI does not obtain a favourable outcome.

## 29. Related party transactions and balances

The Company is related to a number of other entities through common control and directorship. The following are the outstanding balances with the related parties;

| | 2020 | 2019 |
|---|---|---|
| | UGX'000 | UGX'000 |
| **a) Amounts due to related parties** | | |
| Insider loans | 133,317 | 38,327 |
| | 133,317 | 38,327 |

Insider loans as at 31 December 2020 amounted to UGX 133 million (2019: UGX 38 million) in terms of outstanding amount to members of senior management of the institution, broken down as follows;

| Name | Rate | Performance status | 2020 UGX'000 | 2019 UGX'000 |
|---|---|---|---|---|
| Ethel Lubwama | 22.3% | Non-Performing | 6,795 | - |
| Flavia Kizza | 22.3% | Performing | 68,600 | - |
| Helen Mukasa | 22.3% | Performing | 57,922 | - |
| Richard Bikaatu Kigozi | 22.3% | Fully paid | - | 38,327 |
| | | | 133,317 | 38,327 |

**b) Transactions with related parties**

| | | |
|---|---|---|
| Director compensation | 18,230 | 25,504 |

Director compensation comprises allowances paid out to the members of the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 30. Impact of the Covid-19 Pandemic and strategies

In In late 2019, there was a global outbreak of Covid-19 which the World Health Organization (WHO) later declared it a global pandemic. The government of Uganda announced a national lockdown in late March 2020 following which the Bank of Uganda (BOU), our regulator, put in place a series of Credit Relief Measures aimed at maintaining financial stability and reducing the adverse economic impact of COVID-19. BOU issued guidelines to Supervised Financial Institutions (SFIs) regarding how to apply the reliefs.

BOU allowed SFIs to restructure any loan affected by the COVID-19 pandemic as long as this is done within one-year effective 1st April 2020. Within this period, borrowers were eligible to have their loans restructured (updated) for up to two (2) times, and any further restructuring could be applied for and approved by BOU. Any credit relief granted was to be given at the discretion of the SFI.

Micro, Small, and Medium Enterprises (MSMEs) were the most affected by the pandemic who faced the full brunt of the lockdown. Certain sub sectors shall take a while to recover as they continue to be severely impacted by the SOPs. These include transport, schools and some in the entertainment industry. The International Finance Corporation (IFC) reported that in Uganda, 89% of businesses reported a decrease in the turnovers.

EFC's Covid -19 Credit Policy bulletin restricted the moratoriums to a maximum 120 days in tandem with the lockdown. This was in order to strike a balance between offering sufficient reliefs to our customers while maintaining sound liquidity as required of a SFI.

Up to 76% of our customers applied for and received the covid credit reliefs. As at the end of the 1$^{st}$ quarter of 2021, less than 10% of the portfolio was under the covid credit relief program.

Several Sub sectors like Education, the Entertainment industry, Tourism and transport are still struggling. We are building provisions to cover for the portfolio represented by these sectors. Furthermore, we have frozen further interest capitalization for loans under these hard-hit sectors.

## 31. Events after the reporting period

At the date of authorization of these financial statements, there were no events after 31 December 2020 that required adjustment of the Company's books of accounts.

## 32. Contingent liabilities

In the ordinary course of business contingent liabilities may arise due to breach of contracts, injury to third parties, failure to honor commitments entered into by the organization and other numerous sources.

The company had a number of pending claims and litigation cases at end of the year. The directors having taken professional consultations are of the opinion that the pending claims and ligations are unlikely to lead to any material financial loss to the Company as the Company is confident that the matters will be in decided in favor of the Company. The exposure arising from pending litigation and claims has been quantified to UGX 676 million (2019: UGX 1,032 million).

## 33. Commitments and guarantees

During the year ended 31 December 2020, the Company had no commitments and guarantees.