

VISIONFUND UGANDA LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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COMPANY INFORMATION

BOARD OF DIRECTORS

- : Mr. Constant Othieno Mayende - Chairperson (Effective 02.01.2021)
- : Mr. Frederick Mwesigye Edward - Member
- : Ms. Jane Namuddu Kigundu - Member
- : Mrs. Francesca Nakaggwa Kakooza - Member
- : Mr. Jason Evans - Member
- : Mrs. Sarah Yvonne Byabazaire - Member (Appointed 10.09.2021)
- : Mrs. Christine Kawasima - Member (Appointed 10.09.2021)
- : Mrs. Mercy Sande Ainomugisha - Managing Director/CEO (Appointed 20.05.2021)
- : Dr. Fred Muhumuza - Member (Retired on 14.05.2021)
- : Mrs. Lucy Businge Kugonza - Member (Retired on 14.05.2021)
- : Ms. Caroline Tsilikounas - Member (Resigned on 20.08.2021)

REGISTERED OFFICE

- : Plot 256, Bombo Road
- : Makerere Kavule
- : P. O. Box 24751, Kampala
- : Kampala, Uganda

COMPANY SECRETARY

- : Mr. Manzi Max
- : P. O. Box 24751, Kampala
- : Kampala, Uganda

COMPANY LAWYER

- : Ausi Twijukye & Co. Advocates
- : P. O. Box 385, Kampala
- : Plot 50, Simba Telecom Building
- : Kampala, Uganda

INDEPENDENT AUDITOR

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

BANKERS

- : Stanbic Bank Uganda Limited
- : 17 Hannington Road
- : Crested Towers
- : P. O. Box 7131, Kampala
- : Bank of Africa Uganda Limited
- : Plot 45, Jinja Road
- : P. O. Box 2750, Kampala
- : Centenary Rural Development Bank Limited
- : Plot 44- 46 Kampala Road, Mapeera House
- : P. O. Box 1892
- : Kampala, Uganda
- : DFCU Bank Limited
- : Plot 26 Kyadondo Road
- : P. O. Box 70
- : Kampala, Uganda

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2021, which disclose the state of affairs of VisionFund Uganda Limited "the Company".

OUR VISION

VisionFund Uganda Limited shares the World Vision International vision which is: "Our vision for every child, life in all its fullness, Our prayer for every heart, that will make it so".

OUR MISSION

To improve the lives of children by providing low income entrepreneurs with sustainable and integrated financial services that unlock their potential.

THE THREE YEARS STRATEGY (2022-2024)

The VisionFund Uganda strategic objectives align with VisionFund International strategy 2030 and they include;

- To sustainably impact 300,000 children in the rural and vulnerable communities while aligning the footprint with World Vision Uganda Area Programs.
- Register a Profit After Tax of UGX 500 million by 2024
- Deliver our offerings to 50,000 clients through branch network, digital channels, World Vision Uganda and other partners.

PRINCIPAL ACTIVITIES

The principal activity of the company is that of extension of credit, including the provision of short term loans to small or micro enterprises and low income households using a 'credit with education' approach usually characterised by use of collateral substitutes such as group guarantees and compulsory savings.

	2021 Shs'000	2020 Shs'000
RESULTS		
Loss before tax	(610,738)	(4,463,580)
Tax (charge) / credit	-	-
Loss for the year	<u>(610,738)</u>	<u>(4,463,580)</u>

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on overall demand of the company's products. The company's strategic focus is to enhance sales growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions. In addition to the business risks discussed above, the company's activities expose it to a number of financial risks which are described in detail in Note 27(b) to the financial statements.

SHARE CAPITAL

The authorised, issued and paid up share capital is Shs.13,000,000,000 (2020: 13,000,000,000) representing 13,000,000 (2020: 13,000,000) ordinary shares with a par value of Shs. 1,000 (2020: 1,000) per share.

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2020: Nil).

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

In accordance with the company's Articles of Association, no director is due for retirement by rotation.

INDEPENDENT AUDITOR

The Company's independent 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.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the board of directors held on

25/03/2022

BY ORDER OF THE BOARD

COMPANY SECRETARY

KAMPALA

29/03/2022 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Ugandan Companies Act, 2012 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; and that disclose, with reasonable accuracy, the financial position of the company and that enables them to prepare financial statements of the company that comply with the International Financial Reporting Standards (IFRSs) and the requirements of the Ugandan Companies Act, 2012. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Companies Act, 2012. They also accept responsibility for:

- i. designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii. selecting and applying appropriate accounting policies; and
- iii. making accounting estimates and judgements that are reasonable in the circumstances.

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2021 and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Uganda Companies Act, 2012.

In preparing the financial statements the directors have assessed the company's ability to continue as a going concern as set out in Note 1(a) to the financial statements. The directors are of the opinion that the company will remain a going concern for at least the next twelve months from the date of the statement based on the factors described in Note 1(a).


The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements.

- i The shareholders have pledged that they will continue to support the day to day operations of the company and if necessary remit funds to meet the financial obligations as they fall due. Based on these factors, the financial statements have been prepared on a going concern basis which assumes that the company will continue in operational existence for the fore-seeable future.
- iii Cash flow and profitability forecasted results for the next 12 months prepared by management indicate that VisionFund Uganda Limited will have sufficient cash assets to be able to meet its obligations as and when they are due.
- iv Since October 2019, Management has been effecting a Board approved Cost management strategy. Management therefore expects that the operating costs will be further reduced within the next 12 months and this will further increase the Institution's operating cash flows.
- v Management is undertaking a deliberate Growth Strategy during the post covid-19 pandemic and is confident that this will ensure a growing revenue base for the institution over the next 12 months period.
- vi Management negotiated the rescheduling of loans


The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on 25th March 2022 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
Website: www.bdo-ea.com

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

Report of the independent auditor to the members of VisionFund Uganda

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of VisionFund Uganda Limited set out on pages 7 to 35 which comprise the statement of financial position as at 31 December 2021 and the statement of profit or loss, 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 2021, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Uganda Companies Act, 2012.

Basis of 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 for 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.

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 is 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 various inputs in the modelling of IFRS 9 expected credit loss (ECL) model and assumptions could produce significantly different estimates of impairment loss provisions. Management has made a number of assumptions when designing and implementing a general model that is compliant with IFRS 9 Financial Instruments, putting into consideration of the Company's unique business model and its nature of loan products. Refer to Note 1(i) and Note 13(a) that describe the assumptions made in determining impairment provision and the output of the model respectively.

How the matter was addressed in the audit (key procedures);

- Reviewed and analysed the expected credit loss impairment model and impairment methodology adopted by management, including the key parameters of exposure at default (EAD), probability of default (PD), and loss given default (LGD).



Report of the independent auditor to the members of VisionFund Uganda Limited

Key Audit Matters (continued)

Report on the Audit of the Financial Statements (continued)

How the matter was addressed in the audit (key procedures);

- Evaluated and challenged the assumptions underlying the impairment model, for relevance and reasonableness.
- Key assumptions related to; loss rates used as discount rates while determining present values of forced sale values for collateral securities, and macro-economic factors covering impact of Covid-19 used to incorporate forward-looking information in the model's PDs.
- Tested the appropriateness and accuracy of inputs to the model and where available, compared data and assumptions to external benchmarks;
- For a sample of customer accounts, we evaluated management's assessment of increase in credit risk for specific customer balances and for appropriate staging, and
- Evaluated the output of the impairment model in comparison to the final computations, financial statements and adjustments passed in the general ledger, for accuracy of the reported model's output (provision).

We found that the inputs to the ECL model were fairly accurate, output of the model was reasonable (fairly stated), and the disclosures in the financial statements pertaining expected credit loss provision on loans and advances were fairly complete and appropriate.

Other Matter

The financial statements of the company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 20 May 2021. The predecessor auditor reported on the financial statements for the year ended 31 December 2020 before the amendments described in Note 29 to the financial statements.

As part of our audit of the company's 31 December 2021 financial statements, we also audited the reclassification adjustments described in Note 29 that were applied to amend the 31 December 2020 financial statements. In our opinion, such reclassification adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 31 December 2020 financial statements of the company other than with respect to the reclassification adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 31 December 2020 financial statements taken as a whole.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs and the requirements of the Ugandan Companies Act, 2012, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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.



Report of the independent auditor to the members of VisionFund Uganda Limited (continued)

Report on the Audit of the Financial Statements (continued)

Other information

The directors are responsible for the other information. The other information comprises the company's information and the directors' report but does not include 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 of the financial statements that give a true and fair view in accordance with IFRSs and the requirements of the Ugandan Companies Act, 2012, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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.

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.



Report of the independent auditor to the members of VisionFund Uganda Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

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

- Conclude on the appropriateness of director'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.

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 Ugandan Companies Act, 2012 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 and statement of profit or loss and accumulated losses are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Nicholus Mushabenta - holding practicing license number - P0507

Nicholus Mushabenta - Partner

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

Date 31/12/2022


STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2021 Shs'000	2020 Shs'000
Interest income	2	13,399,523	12,528,496
Interest expense	3	<u>(3,507,060)</u>	<u>(4,566,912)</u>
Net interest income		9,892,463	7,961,584
Fee and commission income	4	1,590,269	1,318,229
Other operating income	5	2,223,269	1,638,653
Impairment losses on financial assets at amortised cost	13a	(1,338,736)	(1,267,765)
Employee costs	8	(6,662,154)	(7,310,082)
Operating expenses	7	(6,187,922)	(6,616,464)
Finance costs	6	<u>(127,927)</u>	<u>(187,735)</u>
Loss before tax		(610,738)	(4,463,580)
Tax charge	9(a)	<u>-</u>	<u>-</u>
Loss for the year		(610,738)	(4,463,580)
Other comprehensive income			
Revaluation surplus		169,792	-
Deferred tax on revaluation reserve		(50,937)	-
Other comprehensive income, net of tax		118,854	-
Total comprehensive loss for the year		<u>(491,884)</u>	<u>(4,463,580)</u>

The notes on pages 12 to 41 form an integral part of these financial statements.

		2021	2020
	Notes	Shs'000	*Restated Shs'000
ASSETS			
Cash and cash equivalents	10	4,685,516	4,582,792
Placements with commercial banks	11	-	1,010,418
Loans and advances	13(a)	27,108,232	23,964,963
Other assets	12	505,147	579,801
Current tax recoverable	9(c)	484,177	476,698
Property and equipment	14	2,133,547	2,373,514
Right of use asset	16	1,235,678	1,513,791
Intangible assets	15	760,570	1,481,454
Total assets		36,912,867	35,983,431
LIABILITIES			
Lease liability	18	1,306,520	1,554,004
Clients' compulsory savings	19	740,077	990,141
Provisions	21	63,865	39,683
Other liabilities	20	7,960,186	5,883,821
Borrowings	22	18,183,527	20,547,210
Deferred tax liability	26b)	130,760	85,974
Total liabilities		28,384,935	29,100,833
CAPITAL AND RESERVES			
Share capital	23	13,000,000	13,000,000
Share premium	24	1,849,624	1,849,624
Shareholders funds awaiting allotment	25	3,289,327	1,151,929
Revaluation reserve	26a)	305,104	200,604
Accumulated losses		(9,916,123)	(9,319,560)
Total Shareholders' Equity		8,527,932	6,882,597
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		36,912,867	35,983,431

The financial statements on pages 8 to 41 were approved and authorised for issue by the Board of Directors on 24th March 2022 and signed on its behalf by:


DIRECTOR


DIRECTOR

The notes on pages 12 to 41 form an integral part of these financial statements.

*Certain amounts shown here do not correspond to the 2020 financial statements and reflect reclassification adjustments made as indicated in Note 29.

For the year ended 31 December 2021

STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary share capital	Share premium	Shareholders funds awaiting allotment	Revaluation reserves	Retained earnings	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2021							
At start of year (as restated)		13,000,000	1,849,624	1,151,929	200,604	(9,319,560)	6,882,597
Loss for the year		-	-	-	-	(610,738)	(610,738)
Additional funds from shareholders		-	-	2,137,398	-	-	2,137,398
Transfer of excess depreciation		-	-	-	(20,506)	20,506	-
Transfer of deferred tax related to revaluation reserve		-	-	-	6,152	-	6,152
Adjustment for IFRS16		-	-	-	-	(8,331)	(8,331)
Revaluation gain net of tax		-	-	-	118,854	-	118,854
At end of year		13,000,000	1,849,624	3,289,327	305,104	(9,916,123)	8,527,932
Year ended 31 December 2020							
At start of year		9,440,624	1,849,624	2,846,805	212,124	(4,781,526)	9,567,651
Loss for the year		-	-	-	-	(4,463,580)	(4,463,580)
Addition funds from shareholders		-	-	1,864,500	-	-	1,864,500
Transfer of excess depreciation		-	-	-	(17,750)	17,750	-
Deferred tax on excess depreciation		-	-	-	5,325	(5,325)	-
At end of year (as previously stated)		9,440,624	1,849,624	4,711,305	199,699	(9,232,681)	6,968,571
Transfer of allotted shares (reclassification adjustment)	29	3,559,376	-	(3,559,376)	-	-	-
Correction for the deferred tax liability arising from prior year's revaluation	29	-	-	-	905	(86,879)	(85,974)
At end of year (as restated)		13,000,000	1,849,624	1,151,929	200,604	(9,319,560)	6,882,597

The notes on pages 12 to 41 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

		2021	2020
	Notes	Shs'000	Restated Shs'000
Loss before tax		(610,738)	(4,463,580)
Adjustments for:			
Depreciation of property and equipment	14	573,542	750,812
Depreciation on right of use asset	16	323,240	431,971
Cancellation of lease liabilities	17	(261,010)	(352,180)
Write off Right of use assets	16	142,289	999,454
Amortisation of intangible assets	15	720,884	721,573
Interest on lease liabilities	18	127,927	187,735
Foreign exchange gain on loans		(15,078)	-
(Gain) / loss on disposal of property and equipment		(46,358)	1,657
Accrued interest on borrowings		3,507,060	4,566,912
Changes in working capital			
Decrease in other assets		74,654	99,592
(Increase) / decrease in loans and advances		(3,143,269)	1,437,856
Increase in Provisions		24,182	4,483
Decrease in clients' compulsory savings		(250,064)	(430,260)
Increase in other liabilities		2,076,365	457,114
Tax paid		(7,479)	-
Net cashflows generated from / (used in) operating activities		<u>3,236,147</u>	<u>4,412,939</u>
Investing activities			
Purchase of property and equipment	14	(169,384)	(414,988)
Additions to right of use assets	16	(187,417)	(730,211)
Proceeds from disposal of fixed assets		51,958	174
Net cash used in investing activities		<u>(304,843)</u>	<u>(1,145,025)</u>
Financing activities			
Proceeds from long-term borrowings		4,284,508	2,007,885
Repayments of long-term borrowings		(10,140,173)	(5,442,995)
Additions to Lease liability		237,733	-
Payments for lease liability		(358,465)	(560,551)
Share capital increase	23	-	3,559,376
Shareholders' fund awaiting allotment	25	2,137,398	(1,694,876)
Net cash (used in) / generated from financing activities		<u>(3,838,999)</u>	<u>(2,131,161)</u>
(Decrease) / Increase in cash and cash equivalents		<u>(907,695)</u>	<u>1,136,753</u>
Cash and cash equivalents at start of year		<u>5,593,210</u>	<u>4,456,458</u>
Cash and cash equivalents at end of year	10	<u>4,685,515</u>	<u>5,593,210</u>

The notes on pages 12 to 41 form an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

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

These financial statements comply with the requirements of the Ugandan Companies Act, 2012. The statement of profit or loss and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

Statement of compliance

The financial statements of VisionFund Uganda Limited ("the Company") have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Companies Act 2012, laws of Uganda.

For purposes of reporting under the Companies Act, 2012 of Uganda, the balance sheet in these financial statements is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 -Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Transfer between levels of the fair value hierarchy are recognised by the directors at the end of the reporting period during which the change occurred.

Going concern

The financial performance of the company is set out in the director's report and in the statement of profit or loss and the other comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 27.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

- i The ultimate parent company VisionFund International has pledged in its letter of support dated its continuing support for at least 12 months from the date of approval of the financial statements for the year ended December 31 December 2021.

- ii VisionFund International has further stated that it has no intention of calling up the outstanding loan amount of Shs 16

Billion owed to it by VisionFund Uganda Limited in any way that might give rise to a liquidity shortage in the company.

- iii Cash flow and profitability forecasted results for the next 12 months prepared by management indicate that VisionFund

Uganda Limited will have sufficient cash assets to be able to meet its obligations as and when they are due.

- iv Since October 2019, Management has been effecting a Board approved Cost Reduction Strategy. Management therefore expects that the operating costs will be further reduced within the next 12 months and this will further increase the institution's operating cash flows.

- v Management is undertaking a deliberate Growth Strategy and is confident that this will ensure a growing revenue base for the institution over the next 12 months period.

NOTES (CONTINUED)

a) Basis of preparation (continued)

(i) New and amended standards adopted by the company

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Covid-19-related Rent Concessions – Amendments to IFRS 16

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications.

In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022, with an early adoption being permitted.

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

Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.

The Phase 2 amendments provide the following reliefs:

• When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.

• The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

Affected entities need to disclose information about the nature and extent of risks arising from IBOR reform to which the entity is exposed, how the entity manages those risks, and the entity's progress in completing the transition to alternative benchmark rates and how it is managing that transition.

Given the pervasive nature of IBOR-based contracts, the reliefs could affect companies in all industries.

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

(ii) New standards, amendments and interpretations issued but not effective

At the date of authorization of the financial statements of the Company for the year ended 31st December 2021, the following standards are applicable to the Company and were in issue but not yet effective (all effective 1 January 2022) and have not been early adopted by the Company:

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective (continued)

The following amendments are effective for the period beginning 1 January 2023:

Standard / Interpretation/Amendment	
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that will subsequently become not applicable to the entity). None of the above standard, interpretation and amendment is expected to have a significant impact on the company's financial statements.

b) Significant accounting judgements, estimates and assumptions

In the application of the accounting policies, management and the directors are required to make the judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Management and the directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- Measurement of expected credit losses (ECL):

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Significant accounting judgements, estimates and assumptions (continued)

- **Measurement of expected credit losses (ECL): (continued)**
 - Determining criteria for significant increase in credit risk;
 - Choosing appropriate models and assumptions for the measurement of ECL;
 - Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
 - Establishing groups of similar financial assets for the purposes of measuring ECL

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

The ECL model applied for financial assets other than trade receivables and contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Assessment of significant increase in credit risk: The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The company uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions.

For other receivables when material, it's the company's policy to apply the simplified model under IFRS 9 where lifetime expected credit loss allowance is recognised on the basis of a provisioning matrix.

The carrying amounts of the Company's financial assets that are subject to impairment assessment are disclosed in Note 13.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Significant accounting judgements, estimates and assumptions (continued)

- Useful lives, depreciation methods and residual values of property, plant and equipment, intangible assets and right-of-use assets

Management reviews the useful lives, depreciation methods and residual values of the items of property, plant and equipment, and right-of-use assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values. The carrying amounts of property, plant and equipment, right-of-use assets are disclosed in Notes 14 and 16.

- Accounting for leases under IFRS 16

Management has made various judgements and estimates under IFRS 16 as detailed below:

Incremental borrowing rate: To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease term/period: In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the company is typically reasonably certain to extend (or not terminate).
- Otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

The carrying amounts of lease liabilities and right-of-use assets are disclosed in note 18.

Other judgements and estimates may also require explanation in accounting for lease under IFRS 16 depending on the individual circumstances of the entity and the materiality of the amounts involved. These include:

- (i) how the entity has determined whether a contract is, or contains, a lease
- (ii) what is considered to be an index or rate in determining lease payments
- (iii) how to account for costs incurred in connection with a lease that are not part of the cost of the right-of-use asset
- (iv) the interpretation of what constitutes a penalty in determining the lease term/period.

For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the company is typically reasonably certain to extend (or not terminate).
- Otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Significant accounting judgements, estimates and assumptions (continued)

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The carrying amounts of property, plant and equipment, right-of-use assets and intangible assets are disclosed in Notes 14, 16 and 15, respectively.

Impact of Covid-19

During the year, Covid-19 pandemic continued to impact a number of businesses including financial services sector. Government's actions to mitigate the spread of Covid-19 greatly affected the company's section of customers' financial capacity. The Covid-19 pandemic was amongst the macro-economic conditions used to adjust historical loss rates determined using a 4-year data base. Along side other macro-economic factors incorporated in the IFRS 9 expected credit loss (ECL) model to consider forward-looking information, the company's probabilities of default increased due to a decline in the quality of loan portfolio in relation with the impact of Covid-19 pandemic plus government's restrictive measures.

(c) Foreign currency translation

Transactions in foreign currencies during the year are converted into Uganda Shillings (the functional currency), at the rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated using the exchange rates at the dates of the initial transactions.. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

(d) Interest income and expense

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

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

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

(e) Fees and commission income and expense

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

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(f) **Property and equipment**

All property and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Freehold land is not depreciated.

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 derecognised. All other repairs and maintenance are charged to the statement of profit and loss during the financial period in which they are incurred.

Depreciation is calculated using straight-line method to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rates%
Buildings	5%
Motor vehicles	20.0%
Furniture and fittings	12.5%
Equipment	33.30%
Computer equipment	33.30%

The assets residual values and useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss.

Revaluation of freehold land and building, and revaluation reserve

Effective 2014, company's freehold land and building was accounting for using revaluation model. Since then, freehold land and building is subsequently carried at fair value, based on periodic valuations by a professionally qualified valuer. These revaluations are made with sufficient regularity to ensure that carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the revaluation reserve except to the extent that they decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognized in profit or loss. It's the company's policy choice to transfer each year from revaluation surplus to retained earnings an amount equal to the excess depreciation net of related deferred tax (the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset).

(g) **Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

(h) **Impairment of non-financial assets and intangible assets**

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of non-financial assets and intangible assets (continued)

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually.

Intangible assets

Rates%

20.0%

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In this case, management determines the recoverable amount of the CGU to which the asset belongs.

A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of cash inflows from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation surplus taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

i) Financial instruments

- Financial assets

Financial instruments are recognised when, and only when, the company becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial Instruments (continued)

- Financial assets (continued)

The company classifies its financial assets into the following categories:

i) Amortised cost;

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

All the company's financial assets are currently classified as measured at amortised cost.

ii) Fair Value Through Other Comprehensive Income (FVTOCI):

Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

The company currently has no financial instruments classified as measured at FVOCI.

iii) Fair Value Through Profit or Loss (FVTPL):

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

Notwithstanding the above, the company may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income

- on initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

At initial recognition of a financial asset, the company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The company reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the company has not identified a change in its business models, and has no financial instruments classified as measured at FVTPL.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the company has transferred substantially all risks and rewards of ownership, or when the company has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Impairment

Financial instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment assessment. No impairment loss is recognised on investments measured at FVTPL.

The company recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- Cash and cash equivalents
- Loans and advances to customers

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Derecognition/write off (continued)

No impairment loss is recognised on investments measured at FVTPL.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

Through evaluating the business model and the Cash flow characteristic summarized below, the institution amortizes

i) Business model test.

contracts between the institution and the clients were reviewed to assess the conditions for which the financial assets arise and also to establish and confirm that the business model for the institution is only to collect contractual cash flows.

ii) The SPPI test

An assessment to ascertain whether the contractual cash flows give rise to specified payment dates and that the payments are solely for principal and interest on the principal outstanding was made. On review of the institution's contractual cash flows from the financial assets, it was ascertained that payments are solely for principal and interest and that transactions were genuine and debtor non-payment is considered breach of contract.

Reclassification

Reclassification of financial assets is required if and only if the objective of the institution's business model for managing those financial assets changes. There has not been any change in our activities that are significant to our operations hence no change in business model. This implies no reclassification of financial assets. Financial liabilities cannot be re-classified.

Expected credit loss assessment.

As guided by the standard, and the internal policies of the institution, the institution measures expected credit losses of a financial instrument in a way that reflects:

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

In calculating the ECL, a probability-weighted estimate, the Probability of Default (PD), the Exposure at Default (EAD) and the Loss given default (LGD) plus quantitative aspects are used to assess the overall impairment or ECL on a particular group of financial assets.

Probability of Default (PD)

The institution assess the likelihood of a default occurring over a particular time horizon or the likelihood that a borrower will be unable to meet their debt obligations as they fall due using the average credit losses of large company's of financial assets with shared risks characteristics for which such loans fall to get reasonable estimates of the probability - weighted ratios used in the ECL analysis using both internal and the external Marco economic factors that could cause default to materialize.

Internal factors

Historical information from closed loans from the last 4 year time horizon were used in the analysis to ascertain default patterns which acted a hindsight to ascertain the probability of default for the current outstanding loans as at the reporting date using statistical regression analysis.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Macro-Economic Factors

In addition to internal factors, an analysis of the impact of the macro economic factors (gotten from the Bank of Uganda website) was done to the possibility of them accelerating default of loans in the foreseeable future. These factors were analyzed in-tandem with the NPL ratio per month in the last 4 year time horizon of which the forecasted impact per month till the last loan on the book will be paid was done to predict future impact on ECL. Specific factors used include; government securities (T-Bills), private demand deposits, consumer price index (CPI) and the pandemic.

Exposure at default (EAD)

Also known as "credit exposure", is the carrying amount of a financial instrument that is exposed to credit risk being the outstanding balance plus any accrued interest discounted to present value using the effective interest rate.

Loss given default (LGD)

The computation of the LGD calculations to reflect the amount and timing of the cash flows that are expected from foreclosure less the cost of obtaining and selling the collateral irrespective of whether the foreclosure is probable.

In computing the LGD, the institution adjusts the forced sale value of the collaterals using the recoverable rate per sector less any fees on which the discount factor is applied to get the present value used to assessment to get the portion of the EAD that is not covered by collateral.

Collateral and other credit enhancements obtained.

The institution takes collateral for all loans and advances to customers which is valued at 150% or more of the disbursed amount and for clients under the group loan methodology, the loans are secured using the group guarantees and cash collateral.

The collateral classes include title land, Motor Vehicles and Motor Cycles, Un titled land, and Chattels. The carrying amounts of such collateral is valued, depending on the loan size is valued by a listed professional to ascertain both the market and forced sale values of the collaterals. The internal policy of liquidating such securities in case of default is prefixed on the delinquency management policy of the institution summarized below.

The institution defines Default in the internal credit manual as breach of loan repayment terms and conditions as specified in the loan agreements signed between the clients and the institution. The institution instituted a default escalation process with specified actions taken during the management of delinquency

In the in coming up with the Expected Credit loss (under the loss given default computation) the forced sale values of the collaterals was used to reduce the exposure at default.

The company defines Default in the internal credit manual as breach of loan repayment terms and conditions as specified in the loan agreements signed between the clients and the institution. The institution instituted a default escalation process with specified actions taken during the management of delinquency.

In coming up with the Expected Credit loss (under the loss given default computation) the forced sale values of the collaterals was used to reduce the exposure at default. These have been discounted using the loss rates as per various 3 categories based on industry.

Credit risk grades

The table below shows the summary of the credit risk grades and the summary of both the qualitative and quantitative aspects used in the ECL impairment computation.

Stage	Description	Criteria (quantitative)	Criteria (qualitative)	Criteria (others)
Stage 1	0 days in 12-month ECL arrears	1. Interest and principle repayment paid up to date	1. If credit risk is low as of the reporting date or the credit risk has not increased significantly since initial recognition	No observable evidence that loan will default in the near future.
		2. Significantly positive loan to value ratio	2. Compliance with financial covenants	

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Stage	Description	Criteria (quantitative)	Criteria (qualitative)	Criteria (others)
Stage 2 1-30 days in arrears	Lifetime ECL-loans that have witnessed significant increase in credit risk	1. Evidence of repayment of principle and interest past due for <=30 days 2. Significant decline in the value of the collateral, third party guarantees. 3. Significant changes of internal price, external market indicators. 4. Evidence of cash flow difficulty of the customer	1. Negative/bad report from credit bureaus 2. Report of management squabbles/trade union dispute/issues of unpaid salaries. 3. Adverse changes in business, financial and economic conditions 4. Delay by customer in providing perfection documents	1. Evidences of misapplication of loan proceeds by customer 2. Litigations likely have material 3. Profit warnings
Stage 3 31 days in arrears and above	Lifetime ECL-default	1. Past due for more than 30 days 2. Significant deterioration of loan to value ratio 3. Significant financial difficulty of the customer 4. Breaches in financial covenants	1. Events such as adverse circumstances of the obligor such as: death, unemployment, bankruptcy. 2. Restructuring of the facility liquidation and rebooking of new 3. Refusal by customer in providing perfection 4. Credit-impaired or Non-performing instruments	1. Evidences of misapplication of loan proceeds by customer 2. Adverse changes in business, financial or economic conditions 3. Macro-economic forward looking information

Credit risk exposure

The table below guides to understand the significant credit risk concentration/accounting for financial assets.

Parameter	Stage 1 – 12 months ECL	Stage 2 – Life time ECL	Stage 3 – Life time ECL	Total
Gross Carrying amounts for loans and advances to				
Impairment	25,971,822 318,349	667,182 56,678	1,428,667 584,412	28,067,671 959,439

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

Credit risk exposure (continued)

Note: the institution did not have purchased credit – impaired financial assets at the reporting date.

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

Financial liabilities- Classification & Measurement

We have two categories of liabilities: those at fair value through profit and loss and other financial liabilities

Initial measurement

We measure a financial asset or financial liability at its fair value plus or minus, in case a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs are incremental costs that are directly attributable to the acquisition or issue or disposal of a financial asset or financial liability e.g. loan processing fees, regulatory and registration fees, brokerage fees, etc. The transaction costs expected to be incurred on a financial instrument transfer or disposal are not included in the financial.

Subsequent measurement

Financial liabilities continue to be measured at amortized cost as at the balance sheet date.

j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

k) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and other related financial instruments which are readily convertible in known amounts of cash and deposits repayable on demand or maturing within three months of inception.

l) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in the comprehensive income or in equity. In this case, the tax is also recognised in other comprehensive income and equity.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Taxation (continued)

Current tax

Current tax is provided on the results for the period, adjusted in accordance with tax legislation.

Deferred tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the reporting date. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the carry forward of unused tax credits and tax credits and unused tax losses can be utilised.

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

The Company offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

m) Accounting for leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in

The company as a lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the company recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the group is reasonably certain to exercise that option.

The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the company's incremental borrowing rate is used.

For leases that contain non-lease components, the group allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments, in line with the provisions of IFRS 16.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Accounting for leases (continued)

The company as a lessee

Leasehold land and buildings are subsequently carried at revalued amounts, based on annual/triennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the company at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are recognised in profit or loss. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset recognised in profit or loss and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

The above accounting policy has been applied from 1 January 2019. Note 1 (a) sets out the equivalent policy applied in the previous year and the impact of the change in accounting policy.

The company as lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss on a straight-line basis over the lease term.

n) Employee benefit obligations

The company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The Company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

o) Employee entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. An accrual is made for the liability for the annual leave earned but not taken at the reporting period.

p) Share capital

Any amount received/paid over and above the par value of the shares is classified as share premium in equity.

q) Comparatives

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

NOTES (CONTINUED)

	2021 Shs'000	2020 Shs'000
2 Interest income		
Interest income on unimpaired loans and advances	13,399,523	12,528,496
3 Interest expense		
Interest on related party loans	3,013,198	3,707,569
Interest on third party loans	424,739	785,802
Interest expenses - Rotary club of Entebbe	57,291	56,981
Interest expenses - Kiva Loans	11,832	16,560
	3,507,060	4,566,912
4 Fees and commission income		
Commission on loans and advances	1,130,663	945,263
Loan application fees	459,606	372,966
	1,590,269	1,318,229
5 Other operating income		
Payment in lieu of notice	374	1,379
Grant income - fixed assets	154,867	160,454
Miscellaneous income	161,174	333,267
Donations income	1,331,527	926,066
Recovery of written off loans	535,887	186,414
Interest income on fixed deposit accounts	39,440	31,073
	2,223,269	1,638,653
6 Finance costs		
Interest expense on lease liability	127,927	187,735
7 Operating expenses		
Repair and maintenance	281,822	274,905
Office rent	59,431	115,347
Cleaning expenses	49,156	55,090
Electricity expenses	62,246	76,082
Water expenses	16,569	18,306
Travel and transportation expenses	97,725	133,564
Per diem expenses	136,020	91,304
Milage refund expenses	414	288
Fuel expenses	309,115	298,524
Office supplies(printing and stationery)	104,012	118,658
Legal fees	71,073	25,753
Audit fees	145,059	42,447
Consultancy expenses	20,948	38,219
Advertising and publicity expenses	44,511	51,928
Communication expenses	543,466	550,809
Bank charges	27,608	32,378
Write offs	1,407	320
Direct loan costs	-	12
Seminars and conferences	2,969	1,250
Licences	6,398	7,780
Insurance expense	196,830	253,037
Security expenses	405,763	543,169
Foreign exchange losses	27,433	22,583
Board meeting expenses	73,193	47,032
	2,683,168	2,798,785

	2021 Shs'000	2020 Shs'000
7 Operating expenses (continued)		
Subscriptions	3,912	6,027
Partnership fees	346,973	759,872
Mobile money charges	298,522	162,685
Software expenses	805,155	834,365
Loan recovery expenses	11,576	10,745
Miscellaneous expenses	78,129	19,926
Client training expenses	167,569	97,882
Other expenses	175,000	5,928
Marketing expenses	252	15,893
Depreciation of property and equipment	573,542	750,812
Amortization of right of use asset	323,240	431,971
Amortization of intangible asset	720,884	721,573
	<u>3,504,754</u>	<u>3,817,679</u>
Total operating expenses	<u>6,187,922</u>	<u>6,616,464</u>
8 Employee benefits expense		
Salaries	4,862,747	5,326,935
NSSF employer's contribution	503,821	561,331
Bonus and incentives	114,190	91,030
Long service award/Provident fund	430,844	407,091
Medical	269,137	339,392
Casual labour	1,074	35,372
Staff training	59,991	41,135
Staff welfare	305,099	282,274
Acting allowance	52,697	80,958
Staff uniforms	27,421	17,241
Staff settlement expenses	23,459	16,845
Recruitment expense	3,099	23,041
Payment in lieu of notice	8,575	87,437
	<u>6,662,154</u>	<u>7,310,082</u>
Profit Before Taxation		
The profit before taxation has been arrived at after charging/ (crediting)		
Depreciation of property and equipment	573,542	750,812
Amortization of right of use asset	323,240	431,971
Amortization of intangible asset	720,884	721,573
Repair and maintenance	281,822	274,905
Audit fees	145,059	42,447
	<u>1,924,547</u>	<u>2,181,608</u>
9 Taxation		
a) Income tax expense		
Current tax	-	-
Deferred tax credit (Note 16)	-	-
	<u>-</u>	<u>-</u>
b) Reconciliation of tax charge		
The tax on the company's loss before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
Loss before income tax	(610,738)	(4,463,580)
Tax calculated at domestic rates applicable to laws in Uganda - 30% (2020- 30%)	(183,221)	(1,339,074)
Tax effect of:		
- Deferred tax on amortisation of revaluation reserves	-	(5,324)
- Expenses not deductible for tax purposes	167,991	473,310
- Unrecognised deferred tax	15,231	979,941
- Under provision of deferred tax assets in the prior years	-	(108,853)
	<u>100,001</u>	<u>100,001</u>

NOTES (CONTINUED)

	2021 Shs'000	2020 Shs'000
c) Current tax recoverable		
At January 1	476,698	472,150
Tax charge for the year	-	-
Withholding tax paid during the year	7,479	4,548
Payments during the year		
At December 31	<u>484,177</u>	<u>476,698</u>

10 Cash and cash equivalents

Cash in hand	277	1,914
Mobile money balances	514,058	1,270,512
Cash at bank	<u>4,171,181</u>	<u>3,310,366</u>
	<u>4,685,516</u>	<u>4,582,792</u>

For the purpose of the statement of cash flows, the year end cash and cash equivalents comprise of cash in hand, cash and bank and fixed deposits maturing within three months.

The carrying amounts of the company's cash and cash equivalents are denominated in the following currencies:

	2021 Shs'000	2020 Shs'000
Uganda shilling	3,234,075	3,969,358
US Dollar	<u>1,451,441</u>	<u>613,434</u>
	<u>4,685,516</u>	<u>4,582,792</u>

11 Short term investments

Opening balance	1,010,418	1,009,665
Net movement in short term investments	<u>(1,010,418)</u>	<u>752</u>
Closing balance	<u>-</u>	<u>1,010,418</u>

12 Other assets

	2021 Shs'000	2020 Shs'000
Prepayments	404,262	361,805
Other receivables	86,284	189,851
Inventory stock	<u>14,601</u>	<u>28,145</u>
	<u>505,147</u>	<u>579,801</u>

13 (a) Loans and advances to customers at amortised cost

Gross Loans (Note 13(b))	28,067,671	25,004,116
Impairment on loans	<u>(959,439)</u>	<u>(1,039,153)</u>
	<u>27,108,232</u>	<u>23,964,963</u>
Impairment provision on loan and advances		
At start of year	1,039,153	271,805
Charge for the year	1,338,736	1,435,224
Recoveries from impaired loans	-	(167,460)
Write-offs	<u>(1,418,449)</u>	<u>(500,417)</u>
At 31 December	<u>959,439</u>	<u>1,039,153</u>

13 (b) Analysis of gross loans outstanding

Principle outstanding	27,260,584	24,137,883
Accrued Interest	687,678	604,761
Suspended Interest-asset	<u>119,409</u>	<u>261,472</u>
Gross amount of loans outstanding	<u>28,067,671</u>	<u>25,004,116</u>

14 Property, plant and equipment
Year ended 31 December 2020

	Land Shs '000	Buildings Shs '000	Furniture & fittings Shs '000	Equipment Shs '000	Computer equipment Shs '000	Motor Vehicles and Shs '000	Total Shs '000
Cost							
At start of year	290,000	625,000	2,435,991	676,350	1,027,112	1,175,745	6,230,198
Additions	-	-	49,185	21,668	73,035	271,100	414,988
Disposals	-	-	(286,423)	(76,975)	(10,329)	-	(373,727)
At end of year	290,000	625,000	2,198,753	621,043	1,089,818	1,446,845	6,271,460
Depreciation							
At start of year	-	182,292	1,313,419	594,370	785,989	842,980	3,519,031
Charge for the year	-	31,250	286,340	54,548	167,288	211,386	750,812
Disposals	-	-	(284,768)	(76,975)	(10,154)	-	(371,897)
At end of year	-	213,542	1,314,991	571,943	943,103	854,365	3,897,946
Net book value 2020	<u>290,000</u>	<u>411,458</u>	<u>883,762</u>	<u>49,100</u>	<u>146,715</u>	<u>592,480</u>	<u>2,373,513</u>

Year ended 31 December 2021

Cost							
At start of year	290,000	625,000	2,198,753	621,043	1,089,818	1,446,845	6,271,460
Additions	-	-	4,190	-	71,569	93,625	169,384
Disposals/ Write offs	-	-	(13,962)	(10,185)	(51,718)	(25,950)	(101,815)
Elimination of accumulated depreciation on revaluation	-	(244,792)	-	-	-	-	(244,792)
Revaluation of assets	-	169,792	-	-	-	-	169,792
At end of year	290,000	550,000	2,188,981	610,858	1,109,669	1,514,520	6,264,027
Depreciation							
At start of year	-	213,542	1,314,991	571,943	943,103	854,365	3,897,946
Charge for the year	-	31,250	211,437	33,361	79,317	218,178	573,542
Disposals	-	-	(11,470)	(10,185)	(49,974)	(24,585)	(96,214)
Elimination of accumulated depreciation on revaluation	-	(244,792)	-	-	-	-	(244,792)
At end of year	-	-	1,514,958	595,119	972,446	1,047,958	4,130,480
Net book value 2021	<u>290,000</u>	<u>550,000</u>	<u>674,023</u>	<u>15,739</u>	<u>137,223</u>	<u>466,562</u>	<u>2,133,547</u>

Included within total cost as at 31 December 2021 are assets amounting to UGX 2,142,065,781 that have been fully depreciated

NOTES (CONTINUED)

Revaluation of the land and buildings

The company's land and building was revalued on 7 March 2022 by an independent valuer Naome Kayondo Bagenda, a surveyor registered with the surveyors registration board. For purposes of accounting for the land and building, the value determined by the valuer has been taken to be reasonable since this is a few months after year. The book value of the land and building has been adjusted to the revalued amount and the resultant surplus has been credited to the revaluation reserve. Fair value of the land and building was determined using the Market Approach and Depreciated replacement cost approach. A net gain from the revaluation of the land and building as at report date worth US\$ of 169 million was recognised in other comprehensive income.

	Buildings Shs'000	Land Shs'000
Reconciliation of carrying amount and revaluation surplus		
Carrying Amount as at 31 March 2021	380,207	290,000
Revaluation gain	<u>169,792</u>	<u>0</u>
Carrying amount and fair value as at valuation date	<u><u>550,000</u></u>	<u><u>290,000</u></u>

	2021 Shs'000	2020 Shs'000
15 Intangible assets (computer software)		
Cost		
At 1st January	3,608,956	3,608,957
Additions	<u>-</u>	<u>0</u>
At 31 December	<u>3,608,957</u>	<u>3,608,956</u>
Amortisation		
At 1st January	2,127,503	1,405,930
Charge for the year	<u>720,884</u>	<u>721,573</u>
At 31 December	<u><u>2,848,387</u></u>	<u><u>2,127,503</u></u>
Net book value	<u><u>760,570</u></u>	<u><u>1,481,453</u></u>

	Leased Buildings Shs'000	Total Shs'000
16 Right of use asset		
At start of year	2,286,623	3,335,206
Additions	187,417	730,211
Write off	<u>(526,394)</u>	<u>(1,778,794)</u>
	<u><u>1,947,646</u></u>	<u><u>2,286,623</u></u>
At start of year		
Accumulated depreciation	772,833	1,120,201
Accumulated depreciation on disposals	<u>(384,105)</u>	<u>(779,339)</u>
Depreciation charge for the year	<u>323,240</u>	<u>431,971</u>
	<u><u>711,968</u></u>	<u><u>772,833</u></u>
At end of year	<u><u>1,235,678</u></u>	<u><u>1,513,791</u></u>

17 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2020: 30%). The movement on the deferred income tax account is as follows:

	2021 Shs'000	2020 Shs'000
At start of year	3,086,587	2,106,646
Unrecognised charge for the year	<u>179,809</u>	<u>979,941</u>
At end of year	<u><u>3,266,396</u></u>	<u><u>3,086,587</u></u>

NOTES (CONTINUED)

17 Deferred income tax (continued)

The deferred income tax asset and liability and deferred income tax charge/(credit) in the income statement are attributable to the following items:

	At start of year Shs'000 (Unrecognised)	Prior year adjustment Shs'000 (Unrecognised)	Charge to profit or loss Shs'000 (Unrecognised)	At end of year Shs'000 (Unrecognised)
Deferred income tax liabilities				
Revaluation surplus on property and equipment	59,910	26,064	44,786	130,759
Property and equipment	396,846	(12,064)	(265,251)	118,531
	<u>456,756</u>	<u>14,000</u>	<u>(221,465)</u>	<u>249,291</u>
Deferred income tax assets				
Tax losses carried forward	(3,409,896)	14,466	233,965	(3,161,465)
Other temporary differences	(133,447)	(193,044)	(27,730.45)	(354,221)
	<u>(3,543,343)</u>	<u>(178,578)</u>	<u>206,234</u>	<u>(3,515,686)</u>
At end of year	<u>(3,086,587)</u>	<u>(164,578)</u>	<u>(15,231)</u>	<u>(3,266,396)</u>

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. The deferred tax asset net of revaluation surplus on property and equipment of Shs. 3.39 billion (2020: 3.08 billion) has not been recognised in the financial statement due to uncertainty of its recoverability.

	2021 Shs'000	2020 Shs'000
18 Lease liability	<u>1,306,520</u>	<u>1,554,004</u>
The total cash outflow for leases in the year was:		
Reconciliation of lease liabilities arising from financing activities:		
At start of year	1,554,004	2,283,088
(Overstatement) Understatement of lease liability reconciliation in prior year	6,331	(4,088)
Interest charged to profit or loss	127,927	187,735
New lease contracts	237,733	557,496
Terminated lease contracts	(261,010)	(909,676)
Cash flows:		
-Operating activities (interest paid)	(128,374)	(145,503)
-Payments under leases	<u>(230,091)</u>	<u>(415,048)</u>
At end of year	<u>1,306,520</u>	<u>1,554,004</u>

The fair values of lease liabilities equal to their carrying amount, as the impact of discounting is not significant.

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

	2021 Shs	2020 Shs
Ugandan Shillings	<u>1,306,520</u>	<u>1,554,004</u>

NOTES (CONTINUED)

	2021 Shs'000	2020 Shs'000
19 Client Savings		
Compulsory Savings	<u>740,077</u>	<u>990,141</u>

The compulsory saving acts as a collateral for the customers' loan obligation to the company. This is computed as a percentage of the customer's approved loan. In the event of any default, the clients forfeit all or part of the compulsory savings to the extent of the amount at risk. Compulsory savings are non interest bearing and are refundable upon full repayment of the loan.

	2021 Shs'000	2020 Shs'000
20 Other liabilities		
Payables to related party (Note 28a))	3,301,744	2,061,432
Payables from other parties	1,866,722	1,638,666
NSSF payable	64,392	63,182
PAYE payable	123,154	113,111
WHT and VAT payable	1,056,529	676,001
Payables to suppliers	68,555	121,813
Professional fees payable	59,550	41,615
Deferred income	427,577	332,733
Others payables	<u>991,963</u>	<u>835,268</u>
	<u>7,960,186</u>	<u>5,883,821</u>

Other payables includes 130 million as a balance that has been provided for the tax dispute with URA related to PAYE arising from a tax audit for the years of 2016, 2017, 2018

Payables from other parties relate to funds received from the following parties to finance different projects;

	2021 Shs'000	2020 Shs'000
World Vision USA	69,951	125,911
Weberg	53,788	-
Women Empowerment Fund	262,482	313,991
Financial Sector Deepening Uganda	190,317	75,964
Abi Finance	438,571	601,009
Austrian Development Agency	487,502	379,478
Grameen Credit Agricole	<u>364,111</u>	<u>142,313</u>
	<u>1,866,722</u>	<u>1,638,666</u>

21 Provisions		
Provisions for legal disputes	<u>63,865</u>	<u>39,683</u>

The Company is currently involved in a number of legal disputes. The amount provided represents the directors' best estimate of the Company's liability having taken legal advice. The Company reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements.

	2021 Shs'000	2020 Shs'000
22 Borrowings		
The borrowings are made up as follows:		
Other loans	2,134,984	3,428,797
Borrowings from VisionFund International (Note 28b))	<u>16,048,543</u>	<u>17,118,413</u>
Total non current borrowings	<u>18,183,527</u>	<u>20,547,210</u>

NOTES (CONTINUED)

22 Borrowings (Continued)

	2021 Shs'000	2020 Shs'000
Other loans are made up of the following:		
Oxfam	-	2,640,110
KIVA	226,097	299,021
Grameen Agricole	1,691,554	-
Rotary club of Entebbe	217,333	489,666
	<u>2,134,984</u>	<u>3,428,797</u>

The entity has 7 loans from VisionFund International, these are denominated in ugandan shillings, are unsecured. The interest rates applicable on these borrowings are 11%, 19.75%, 20% and 20.75%

The Loan from Rotary Club of Entebbe is a revolving loan, denominated in ugandan shillings and unsecured. The interest rate on this facility is 13%

The Loan from Oxfam which was denominated in ugandan shillings and unsecured with an interest rate of 21.07% expired and was paid off within the year. interest on this loan is paid semi annually. Kiva loan is denominated in ugandan shillings and is interest free

Kiva loan is denominated in Uganda shillings and is interest free.

A new unsecured loan facility denominated in Uganda shillings and at an interest rate of 16.69% was received from Grameen Agricole Microfinance Foundation

	2021 Shs'000	2020 Shs'000
Movement in borrowings		
The changes in borrowings during the year are reconciled as follows;		
Oxfam		
Balance at the start of the year	2,640,110	3,516,193
Loan interest for the year	246,169	699,948
Loan principal and interest repayment	(2,886,279)	(1,576,031)
Balance at the end of the year	<u>-</u>	<u>2,640,110</u>
KIVA Microfund		
Balance at the start of the year	299,021	223,277
Receipts during the year	462,731	798,358
Loan principal and interest repayment	(535,655)	(722,614)
Balance at the end of the year	<u>226,097</u>	<u>299,021</u>
Grameen Agricole Microfinance Foundation		
Balance at the start of the year	-	-
Receipts during the year	1,679,099	-
Loan interest for the year	131,558	-
Loan principal and interest repayment	(119,103)	-
Balance at the end of the year	<u>1,691,554</u>	<u>-</u>
Rotary Club of Entebbe		
Balance at the start of the year	489,666	432,685
Loan interest for the year	57,291	56,981
Loan principal and interest repayment	(329,624)	-
Balance at the end of the year	<u>217,333</u>	<u>489,666</u>

Borrowings from VisionFund International refer to Note 28(b)

NOTES (CONTINUED)

	2021 Shs'000	2020 Shs'000
23 Ordinary Share Capital		
Authorised:		
13,000,000 Ordinary shares of Shs.1,000 each	13,000,000	13,000,000
Issued and fully paid:		
13,000,000 Ordinary shares of Shs.1,000 each	13,000,000	13,000,000
24 Share premium	1,849,624	1,849,624
25 Share capital awaiting allotment		
At start of year	1,151,929	2,846,805
Additional funds	2,137,398	1,864,500
Transfer of allotted shares (reclassification adjustment)	-	(3,559,376)
As at year end	3,289,327	1,151,929

Additional funds relate to borrowings received from VFI and WVU with preagreed terms of being converted to equity. Additional share capital relates to funds received from VFI relating to the purchase of additional shares pending board approval.

	2021 Shs'000	2020 Shs'000
26 Revaluation reserves		
a) Revaluation reserve movement		
At start of year	200,604	212,124
Transfer of excess depreciation	(20,506)	(17,750)
Deferred tax on transfer of excess depreciation	6,152	5,325
Revaluation of land	169,792	-
Deferred tax on revaluation	(50,937)	-
Prior year adjustment	-	905
As at year end	305,104	200,604

Fair value measurement disclosures for the revalued land;

The fair value of the land and buildings as at 7 March 2021 is based on the valuation done by Naome Kayondo Bagenda, a surveyor registered with the surveyors registration board. In determining the fair values of the land, the valuer used the Market Approach and Depreciated replacement Cost (DRC) approach. Under the market approach this provides an indication of the value by comparing the subject asset with identical or similar assets for which price information is available. The DRC approach is based on the economic principle that a purchaser will pay no more for an asset than the depreciated replacement cost as is of the property to obtain one of equal utility whether by purchase or construction.

In particular for the valuation of the land, the valuer determined the fair value in line with IFRS 13 Fair value, as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction market participants at the measurement date".

b) Deferred tax reconciliation related to the revaluation reserve

Opening Balance	85,974	-
Restatement of prior year balance	-	85,974
Addition related to current year's revaluation	50,937	-
Movement related to transfer of excess depreciation	(6,152)	-
	130,760	85,974

27 Financial risk management.

(a) Credit risk.

Maximum exposure to credit risk before collateral

Loans and advances to customers (Note 13(a))	28,067,671	25,004,116
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27 Financial risk management (continued)

(a) Credit risk (continued)

Management is confident on its ability to continue to control and sustain minimal exposure of credit risk to the company resulting from both its loan and advances portfolio and debt securities based on the following:

	2021 Shs'000	2020 Shs'000
Loans and advances are categorized as follows:		
Neither past due nor impaired	25,971,822	21,063,756
Past due loans	2,095,849	3,074,127
Gross	28,067,671	24,137,883
Less: allowance for impairment	(959,439)	(1,039,153)
	<u>27,108,232</u>	<u>23,098,730</u>

No other financial assets are either past due or impaired.

Loans and advances past due but not impaired

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

	2021 Shs'000	2020 Shs'000
0 day	25,971,822	18,877,789
Past due 1 – 30 days	667,182	2,185,967
Past due 31 and above	1,428,667	3,074,127
Total to Note 13 (b)	<u>28,067,671</u>	<u>24,137,883</u>

(b) Market risk

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

- Stress test

Stress test provides an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the treasury department include: risk factor, stress testing where stress movements are applied to each risk category, emerging market stress testing, where emerging market portfolios are subject to stress movements and adhoc stress testing, which includes applying possible stress events to specific positions or regions - for example the stress outcome to a region following currency peg break. The results of the stress tests are reviewed by senior management in each business unit. The stress test is tailored to the business and typically uses scenario analysis.

- Liquidity stress testing

The resilience of VisionFund's to liquidity risk is determined by its ability to withstand sudden adverse liquidity drains without resorting to external liquidity support. For the stress tests for liquidity risk, two scenarios were considered for the period ending December 2019: a simulated run on VisionFund for a 5-day period of stress, and the sudden liquidation of the fixed deposits held for biggest depositor in the institution. The institution fails the tests if its liquidity ratio falls below the internal limit minimum of 20%. In both scenarios, there were no assumptions made about rollovers, increases in borrowings or maturity extensions. Under the scenario of the bank run, daily withdrawal rates of 5 percent for demand and savings deposits and 3 percent for term deposits are assumed while the loan insurance fund were assumed to remain unchanged in both scenarios.

NOTES (CONTINUED)

27 Financial risk management (continued)

(b) Market risk (continued)

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;

	Up to 1 Month Shs'000	1 to 3 Months Shs'000	3 to 12 Months Shs'000	Over 12 Months Shs'000	Total Shs'000
At 31 December 2021					
Financial assets					
Cash and cash equivalents (Note 10)	4,685,516	-	-	-	4,685,516
Loans and advances (Note 13)	1,097,880	2,590,536	21,827,100	1,592,717	27,108,232
	5,783,396	2,590,536	21,827,100	1,592,717	31,793,748
Financial liabilities					
Clients' compulsory savings (Note 19)	82,500	181,186	392,412	83,979	740,077
Borrowings (Note 22)	-	401,048	11,337,180	6,445,299	18,183,527
Lease liabilities (Note 18)	152,300	210,523	95,580	848,117	1,306,520
Other liabilities (Note 20)	7,960,186	-	-	-	7,960,186
	8,194,986	792,757	11,826,173	7,377,395	28,190,310
Asset-liability gap	2,411,590	(1,797,779)	(10,001,927)	5,784,678	(3,603,438)
At 31 December 2020					
Financial assets					
Cash and cash equivalents (Note 10)	4,582,792	-	-	-	4,582,792
Placements with commercial banks (Note 10)	1,010,418	-	-	-	1,010,418
Loans and advances (Note 13)	1,415,548	3,399,605	18,215,573	934,236	23,964,963
	7,008,758	3,399,605	18,215,573	934,236	29,558,173
Financial liabilities					
Clients' compulsory savings (Note 19)	110,836	172,157	517,358	189,789	990,141
Borrowings (Note 22)	489,886	525,447	11,401,309	8,130,788	20,547,210
Lease liabilities (Note 18)	150,509	186,432	294,100	932,963	1,554,004
Other liabilities (Note 20)	5,923,504	-	-	-	5,923,504
	6,674,515	884,036	12,202,767	9,253,540	29,014,859
Asset-liability gap	(334,243)	(2,515,669)	(6,012,806)	8,319,304	(543,314)

-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.

27 Financial risk management (continued)

(b) Market risk (continued)

-Currency/ Foreign exchange risk (continued)

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

	US Dollars	Uganda Shillings	Total
	Shs'000	Shs'000	Shs'000
At 31 December 2021			
Financial assets			
Cash and cash equivalents (Note 10)	1,451,164	3,234,352	4,685,516
Short term investments (Note 11)	-	-	-
Loans and advances (Note 13)	-	27,108,232	27,108,232
	1,451,164	30,342,584	31,793,748
Financial liabilities			
Clients' compulsory savings (Note 19)	-	740,077	740,077
Borrowings (Note 22)	2,127,600	16,055,927	18,183,527
Lease liabilities (Note 18)	-	1,306,520	1,306,520
Other liabilities (Note 20)	-	7,960,186	7,960,186
	2,127,600	26,062,710	28,190,310
Currency exposure gap	676,436	(4,279,874)	(3,603,438)
At 31 December 2020			
Financial assets			
Cash and cash equivalents (Note 10)	613,434	3,969,358	4,582,792
Placements with commercial banks (Note 11)	-	1,010,418	1,010,418
Loans and advances (Note 13)	-	23,964,963	23,964,963
	613,434	28,944,739	29,558,173
Financial liabilities			
Clients' compulsory savings (Note 19)	-	990,141	990,141
Borrowings (Note 22)	-	20,547,210	20,547,210
Lease liabilities (Note 18)	-	1,554,004	1,554,004
Other liabilities (Note 20)	-	5,923,504	5,923,504
	-	29,014,859	29,014,859
Currency exposure gap	(613,434)	70,120	(543,314)

Applicable exchange rates

The following rates applied during the year:

	Reporting date spot rate	
	2021	2020
1 USD	3,546	3,657
	Average rate	
	2021	2020
1 USD	3,583	3,720

NOTES (CONTINUED)

27 Financial risk management (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising out of legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from the company's operations and is faced by all other business entities. The company endeavours to manage the operational risk by creating a balance between avoidance of cost or financial losses and damage to the company's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development policies and programs to implement the company's operational risk management is with the senior management of the company.

The above is achieved by development of overall standards for the company to manage the risk in the following areas:

- 1) Segregation of duties including independent authorisation of transactions
- 2) Monitoring and reconciliation of transactions
- 3) Compliance to regulatory and legal requirement
- 4) Documentation of control and procedure
- 5) Assessment of the operational risk on a yearly basis to address the deficiencies observed, if any
- 6) Reporting of operational losses and initiation of remedial action
- 7) Development of contingency plans
- 8) Giving training to staff to improve their professional competency
- 9) Ethical and business standards
- 10) Obtaining insurance wherever feasible, as a risk mitigation measure.

Compliance of company's standards is supported by yearly reviews undertaken by Internal Audit. The observations of the Internal Audit is discussed with the management of the company and the summaries are submitted to the Audit Committee of the Board.

Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively managed by management to ensure compliance with the company's risk limits. The company's risk limits are assessed regularly to ensure their appropriateness given its objectives and strategies and current market conditions. A variety of techniques are used by the company in measuring the risks inherent in its trading and non-trading positions.

28 Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over that party's financial or operational decisions. VisionFund International Limited controls the company. There are other companies which are related to VFU Limited through common shareholdings or common directorships such as World Vision Us. The relevant balances at the end of the year and income/ expense thereon are shown below:

	2021	2020
	Shs'000	Shs'000
(a) Amounts due to:		
VisionFund International	2,120,098	1,286,163
World Vision Uganda	260,515	-
World Vision USA	921,131	775,269
Total (Note 20)	<u>3,301,744</u>	<u>2,061,432</u>
(b) Loan from VisionFund International (Note 22)		
At 1st January-Borrowings	17,118,413	15,243,253
Receipts during the period	2,142,678	1,448,298
Loan principal repayments	(3,186,733)	-
Loan interest repayments	(2,622,012)	-
Foreign exchange on dollar denominated loan	(15,078)	-
Accrued interest as at 31 December 2021	2,611,275	426,862
At 31 December	<u>16,048,543</u>	<u>17,118,413</u>
Interest expense	<u>3,507,060</u>	<u>4,754,647</u>

NOTES (CONTINUED)

	2021 Shs'000	2020 Shs'000
(c) Transactions with related parties		
Management fees (Partnership fees)	346,973	759,872
Software maintenance costs	776,868	783,947
Insurance - Global	57,322	63,287
	<u>1,181,163</u>	<u>1,607,106</u>

29 Prior year adjustments and reclassifications

The following balances in relation to the prior year's financial statement for the year ended 31 December 2020 have been restated:

Financial statement area	Notes	2020 As previously stated Shs'000	Adjustments/ reclassifications Shs'000	2020 Restated amount Shs'000
Statement of Financial Position				
Share capital	(i)	9,440,624	3,559,376	13,000,000
Shareholders funds awaiting allotment	(i)	4,711,305	(3,559,376)	1,151,929
Deferred tax liability	(ii)	-	85,974	85,974
Revaluation reserve	(ii)	199,699	905	200,604
Accumulated losses	(ii)	(9,232,681)	(86,879)	(9,319,560)
Other liabilities	(iii)	5,923,504	(39,683)	5,883,821
Provisions	(iii)	-	39,683	39,683

- (i) The reclassification adjustment is mainly attributed to the new shares issued/increased during the April 2019 Annual General Meeting (AGM) but were officially allotted on 15 October 2020 as per the filing date of the resolution with the Registrar of Companies. As per the AGM resolution, allotted shares were being increased from 10,000,000 shares (worth Ushs 10 billion of share capital) to 13,000,000 shares (worth Ushs 13 billion of share capital). This implies that, the share capital ought to have been reported as at 31 December 2020 is Ushs 13 billion, instead of Ushs 9.44 billion. As such, a prior year reclassification adjustment has been effected in the financial statements to correct this error.
- (ii) It's the company's policy choice to transfer each year from revaluation surplus to retained earnings an amount equal to the excess depreciation net of related deferred tax (the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset). However it was noted in the previous years, the deferred tax balance related revaluation of assets was not presented on the statement of financial position, instead this had been presented with accumulated losses. Therefore the changes made are to present the deferred liability on the face of the statement of financial position and correct a error in the opening balance of the revaluation reserve
- (iii) Legal provisions in the prior year had been presented within other liabilities, this has been corrected for that balance to be presented on the face of the balance sheet as required by IAS 1 Presentation of Financial Statements (Paragraph 1.54)

Financial statement area	Notes	2020 As previously stated Shs'000	Adjustments/ reclassifications Shs'000	2020 Restated amount Shs'000
Statement of Profit or Loss and Other Comprehensive Income				
Interest income	(iv)	12,559,569	31,073	12,528,496
Other operating income	(iv)	1,584,997	(53,656)	1,638,653
Operating expenses	(iv)	(6,593,881)	22,583	(6,616,464)
Interest expense	(v)	(4,754,647)	(187,735)	(4,566,912)
Finance costs	(v)	-	187,735	(187,735)

- (iv) Interest income on fixed deposit accounts had been presented within interest income and combined with interest income on loans, the interest income on fixed deposit accounts has been reclassified to other operating income. Additionally, within other operating income, the foreign exchange losses had been presented under this line and this has been reclassified to operating expenses
- (v) Interest expense on leases had been presented under the interest expense line, however this has been reclassified to finance costs

30 Events after the reporting period

At the date of authorization of these financial statements, there were no events after 31 December 2021 that required adjustment of the Company's books of accounts.

31 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 11 pending claims and litigation cases in which it was the defendant 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 78 million and a provision of UGX 63 million has been made (2020: UGX 39 million).

32 Commitments and guarantees

During the year ended 31 December 2021, the Company had no commitments and guarantees.

33 Impact of Covid-19, Mitigating Strategies, and Future Outlook

The impact of Covid-19 adversely impacted the growth and quality of the company's loan portfolio especially during the lockdown period when most of the clients' businesses were not operational. It also left staff who contracted the virus stigmatized and while the others who weren't infected were scared to perform their duties. As a company, we developed a Business Continuity Plan to ensure business operations did not come to a standstill but also to mitigate the adverse effects on the business. The Business Continuity Plan was composed of the following key information;

Objectives of the plan, critical function checklist, critical function analysis and recovery process, business continuity response checklist, contact lists of contingency management team, emergency pack contents and crisis management budget to support the plan.

The clients in sectors that were completely locked down like schools were encouraged to use other sources of income to make some payments and this helped them to avoid descending into write off category. The clients were also encouraged to embrace vaccination through word of mouth by staff but also SMS' that were sent out to their known phone contacts.

The future outlook is bright given the fact the country's infection numbers continue to fall but also the government is doing a good job in mobilizing for vaccines and encouraging the citizens to go for vaccination as one of the ways to prepare for future surge of infections. Currently, the economy is fully open and the business environment is beginning to stabilize. The company's forecasted financial performance indicate great financial improvement in the near future.