THE MICROFINANCE SUPPORT CENTRE

ANNUAL REPORT 2021/22

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Annual Report 2021/22

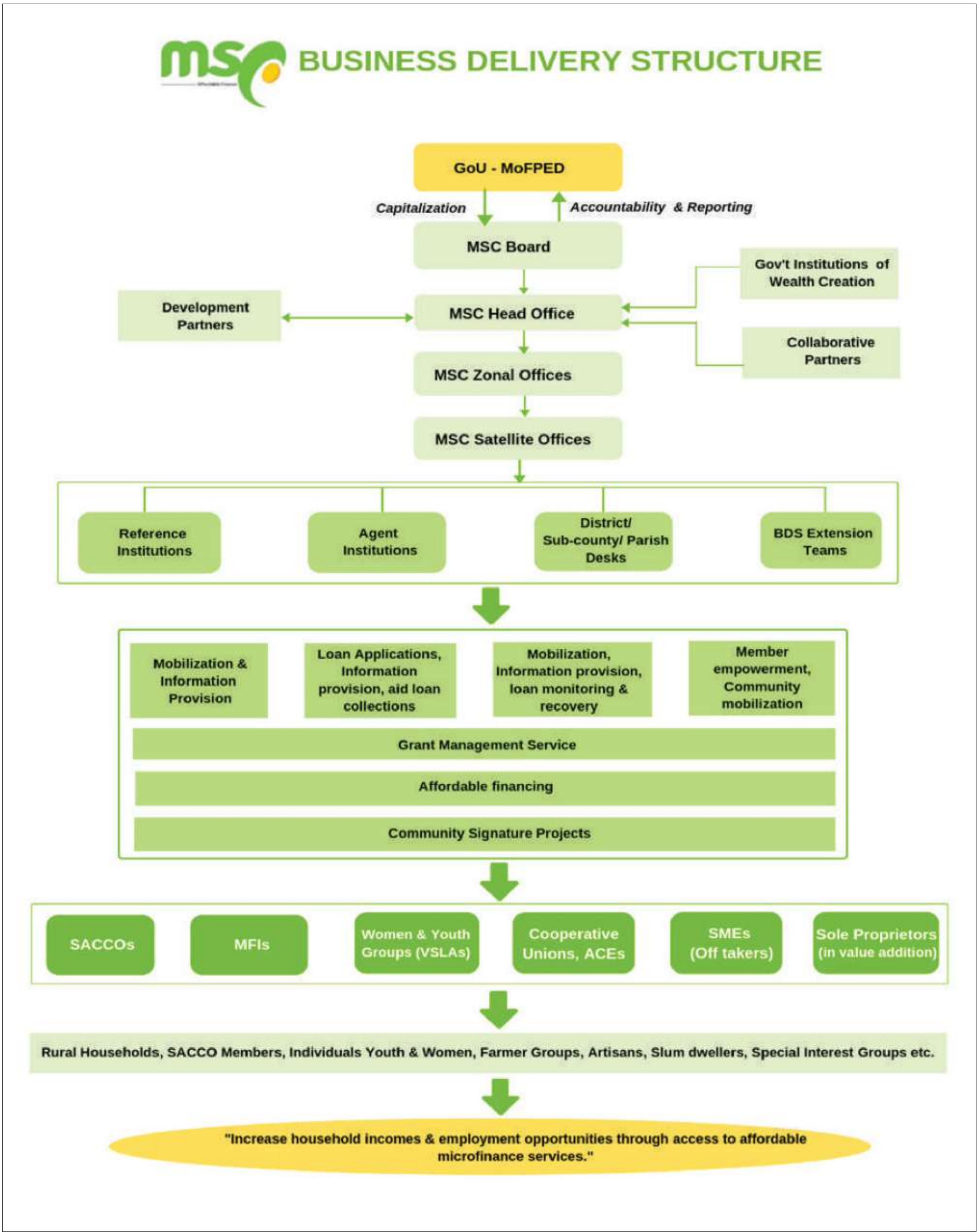
This is the Annual Report of The Microfinance Support Centre Ltd (MSC), covering the period between July 2021 and June 2022. The Report is prepared for MSC's stakeholders and provides information on the performance of MSC for the period under review. It further responds to the outputs as stipulated in the approved MSC Annual Work Plan and Budget FY 2021/22; and performance outputs in the PBS –Vote 008 Policy Statement 2021/22.

This Report highlights MSC's progress in relation to sector-related Government policy plans & programs, the National Development Plan (NDPIII), the National Budget, and the MoFPED Ministerial Policy Statement. It points to areas where progress has been made against set targets.

About MSC

MSC is a development finance agency fully owned by the Government of Uganda. It was incorporated in 2001 to increase access to affordable financial services and strengthen the management capacities of client institutions. MSC traces its roots to the Rural Microfinance Support Project (RMSP, 2000-2008), which was implemented with support from the African Development Bank (ADB). The project was designed to address factors affecting the sustainable delivery of microfinance services in the country, and deepen rural outreach. The project's components were credit and savings mobilization, capacity building, and the establishment of The Microfinance Support Centre Ltd in 2001.

Jemimah, a youth beneficiary of MSC's group financing, sanding furniture at a workshop in Rukungiri.


BUSINESS DELIVERY STRUCTURE
GoU - MoFPED
Capitalization
Accountability & Reporting
MSC Board
Gov't Institutions of Wealth Creation
Development Partners
MSC Head Office
Collaborative Partners
MSC Zonal Offices
MSC Satellite Offices
Reference Institutions
Agent Institutions
District/ Sub-county/ Parish Desks
BDS Extension Teams
Mobilization & Information Provision
Loan Applications, Information provision, aid loan collections
Mobilization, Information provision, loan monitoring & recovery
Member empowerment, Community mobilization
Grant Management Service
Affordable financing
Community Signature Projects
SACCOs
MFIs
Women & Youth Groups (VSLAs)
Cooperative Unions, ACEs
SMEs (Off takers)
Sole Proprietors (in value addition)
Rural Households, SACCO Members, Individuals Youth & Women, Farmer Groups, Artisans, Slum dwellers, Special Interest Groups etc.
"Increase household incomes & employment opportunities through access to affordable microfinance services."

MSC Outreach

From the Executive Desk

We began the Financial Year 2021/2022 by reflecting on our 20-year history and the immense contributions we have had the privilege of making to the country's socioeconomic development. I feel proud to lead an organization with such an important mission, despite the incredible challenges we faced, especially in 2020 and 2021, following the outbreak of the Corona Virus Disease in 2019. Through it all, the team at MSC showed resilience and determination in delivering the Company's mandate as assigned by the Government of Uganda.

We all felt the pinch when economies across the globe had to shut down in 2020 and 2021 to curb the spread of COVID-19. In Uganda, a total lockdown in 2020 that lasted over four months contracted the country's economy to 1.5 percent, the lowest pace recorded in over three decades, according to economists. While the agriculture sector, the greatest beneficiary of MSC's financing, was the least affected by the lockdown measures, it still bore the brunt of the tough times as the services sector was barely functional. Schools, hotels, and restaurants, which are key customers of the agriculture sector, were totally shut down, significantly reducing market availability for products.

As a lending institution, we had to think outside the box and come up with innovative ways to keep afloat and support our clients in every way possible. We reduced our interest rate to 8 percent for SACCOs and Groups when other lending institutions increased their own, following a 0.5 percent increase in the Central Bank Rate. We rescheduled a number of loans, automated our internal processes and supported some of our SACCOs with digital software to ensure business continuity.

The reopening of schools and the hospitality sector in 2022 was a huge relief. The economy started to pick up and we fully resumed our business, starting off with activities to mark our 20th anniversary. An account of the activities we lined up to celebrate our journey is presented in the report.

I am happy to say that during the outbreak, we did not lose any of our staff members to the deadly Corona Virus Disease, much as we had a number who had contracted it. Management ensured that all the sick staff were immensely supported to get the required medical and home care. We went a step further to introduce a monthly stipend for junior staff to enable them sustain their families during the lockdown. I am also extremely proud to mention that none of our staff lost their jobs during this time.

In terms of our performance, there was a remarkable improvement in comparison to the COVID-19 years as highlighted in the financial report. There was an overall 14% increase in achieved objectives for FY 2021/22 compared to FY 2020/21. During the period under the review, the Company achieved 85% coverage through the establishment of reference institutions. 1.09 million employment opportunities were created against a set target of 1.8 million; while beneficiaries of MSC's financial and business development services surpassed the annual target by 1.2 million.

The Company's total portfolio as at June 2022 stood at UGX 187.49Bn comprising UGX 145.8Bn under conventional loans and UGX 41.6bn under Islamic financing, compared to UGX 190.8bn comprising UGX 149.1bn for conventional and UGX 41.7Bn under Islamic Finance in the period ended March 2021. The slight decline in the total portfolio was due to Management's decision to put more effort into recoveries and scale down on disbursements.

I want to thank the Board of Directors and my Senior Management Team for the insight and support, respectively. For MSC to have survived and emerged steadfast through the tough economic times is a demonstration of the strong skill-set we have at the helm of the institution.

More importantly, I extend my heartfelt appreciation to the President and the Government of Uganda who entrusted us with the Emyooga program, which has created employment opportunities and increased income streams for over four million micro-entrepreneurs. You will read more about the milestones registered in this report.

I cannot forget our funding, implementing, and collaborating partners who have enabled us to realize our mandate. A list of them is published in this report in recognition and appreciation of the support they have rendered to us throughout the period under review.

With the diligence of our staff, I look forward to an even better performance in 2023.

John Peter Mujuni
Executive Director

Chairperson's Statement

Dear Shareholders,

On behalf of the Board of Directors of The Microfinance Support Centre Ltd, I am pleased to present the 2022 annual report and audited financial statements of the Company.

The Financial Year 2021/22 started off with an ongoing 42-day lockdown that had been imposed towards the end of June 2021 in an effort to curb the spread of the second wave of the COVID-19 pandemic. This continued to cripple the economy, whose path to recovery was only felt at the beginning of 2022 with the reopening of the education and hospitality sectors.

Around the time of the second lockdown, I was installed as the Chairperson of the Board of Directors of The Microfinance Support Centre Ltd.

My appointment came as a result of the untimely death of my predecessor, the Late Dr. Wilberforce Kisamba-Mugerwa, who wholeheartedly served MSC as its Chairperson of the Board of Directors from 2018 until his demise in 2021. I must confess that I have big shoes to fill as he set the bar so high, but I am honored to continue the legacy he left behind at MSC.

It was fitting, then, to recognize his achievements and contributions as part of MSC's 20th anniversary celebrations. The event gave me an opportunity to appreciate his efforts even more, and I will eternally be grateful for his drive and passion for the socio-economic development of economically active poor Ugandans.

"We shall continue to focus on our business resilience and continuity strategy to create value for our stakeholders".

Through several engagements I have had with my fellow Board Directors and the Senior Management Team, I rest assured that MSC is an important driver of socio-economic development in Uganda. Since its inception in 2001, millions of Ugandans have benefitted, directly and indirectly, from affordable loans that have boosted local enterprises, increased household income and created employment opportunities for women, youth and persons living with disabilities.

At the time I wrote my statement, I had witnessed Management's innovative response to the challenges posed by the restrictions imposed due to the COVID-19 pandemic, and I must commend the team. The decisions made to scale down on disbursements and concentrate on offering business development services to our clientele was a smart move. That way, we were able to offer services beyond lending to help our people build business resilience and innovate. The decision to digitize and digitalize our SACCO and Group clients equally enabled them to sustain their operations.

That we remained sturdy despite the challenges speaks to the leadership of The Microfinance Support Centre Ltd, right from the Hon. Minister of Finance, Planning and Economic Development who has offered immense support to MSC over the years. I also want to thank the members of the Finance and Budget Committee of Parliament who ensure that MSC gets the necessary budget to run its activities. I greatly appreciate my fellow Directors who warmly welcomed me into the fold and support me in our oversight role.

I look forward to a better year, now that medicine is advancing in the successful management of the COVID-19 pandemic. As a country, I am proud of our continued expertise in managing epidemics and pandemics, and I want to join other voices in hailing the Government and our medical experts for flying Uganda's flag high in that regard.

As we move on to the next year, we shall continue to focus on our business resilience and continuity strategy that emphasizes digital technology and innovation, cost reduction, and efficiency in service delivery to create value for our stakeholders.

As the Board of Directors, we shall continue to practice good corporate governance, reflecting its belief that robust governance practices, processes, and culture are fundamental to inspiring stakeholder confidence.

Dr. Emmanuel Aliba Kiiza
Chairperson, MSC Board of Directors

Uganda's Post-Pandemic Economic Outlook

According to the 2022 World Bank Report for Uganda, the Ugandan economy rapidly grew to 4.6 percent during the financial year 2021/22. The unexpected economic growth was largely driven by the services and industry sectors, following the re-opening of the economy in January 2022. Despite the commendable growth, there was a notable decrease in real consumption as purchasing power and credit growth slowed, and unemployment increased. It is reported that the rate of unemployment rose sharply after the second lockdown in June 2021 and remained at the same level in June 2022.

At the same time, inflation rose to a whopping 6.3 percent in June 2022 compared to 1.9 percent in June 2021, according to the country's statistics body, the Uganda Bureau of Statistics (UBOS). Economists indicated that the increment pace has been the fastest since March 2017, and largely blamed the skyrocketing fuel and food prices on Russia's invasion of Ukraine and commodity shortages induced by the Covid-19 pandemic.

In an interview with the media at the close of the Financial Year, economist Prof Augustus Nuwagaba of Makerere University said a rise in inflation was bad for the economy and the people as it leads to the depletion of liquid assets. He added that the purchasing power of consumers, where the real value of money lies, is significantly reduced as a result, which translates to a meltdown in economic activities and slower economic growth.

Core Inflation

The Bank of Uganda uses core inflation to control the rate of the country's inflation at 5 percent. Statistics from UBOS indicate that Uganda's Core Inflation for the 12 months to May increased to 5.1 percent, up from 4.3 percent registered in April. This is attributed to annual other goods inflation that increased to 7.8 percent for the 12 months to May up from 6.6 percent recorded in April. In addition, the Annual Average Inflation for Energy, Fuels, and Utilities (EFU) increased to 5.2 percent in 2021/22 up from minus 0.9 percent in 2020/2021.

Analysis by geographical areas and income groups revealed that Gulu and Arua registered the highest inflation of 10.4 percent and 9.8 percent respectively, for the 12 months to June 2022 up from 8.4 percent and 7.1 percent recorded in May 2022. The increment was attributed to the annual 'Food and Non-Alcoholic Beverages' inflation which increased to 22.5 percent in June 2022 up from 17.9 percent registered in May 2022.

The continued rise in inflation forced the Central Bank to increase its lending rate to 9 percent from 8.5 percent, equally forcing commercial banks to increase their interest rates to slightly above 20% for prime borrowers and to higher levels for risky groups.

Effect on MSC's Business

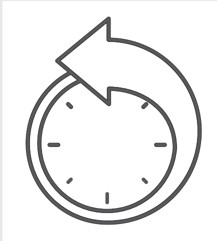
The increase in inflation figures had a direct impact on MSC's business during the period under review. Whereas agriculture, the largest sector financed by MSC, was least affected by lockdown measures imposed by the COVID-19 pandemic, the high inflation costs greatly affected agribusinesses countrywide, increasing the likelihood of actors being unable to meet their financial obligations.

Coping Mechanisms Adopted

Cognizant of the changing economic environment and the different factors affecting its clients, and in a bid to serve clients better and deepen its coverage, MSC adopted the following coping mechanisms during the period under review:

Interest Rate Reduction

The company resolved to reduce its interest rate to 8% from 9-13% for loans disbursed to SACCOs and Groups to equally encourage a reduction on lending rates to individual members. The company also disbursed grants to qualifying clients.



Loan Reschedules

85% of client loans were rescheduled in consideration of the disruptions caused by the COVID-19 pandemic.

Digitization and Digitalization

A total of 21 Emyooga and non-Emyooga SACCOs were supported to digitalize their operations and increase efficiency. Aside from receiving computers, an application dubbed JAMMI was rolled out to enable the SACCOs to streamline their operations.

Capacity Building

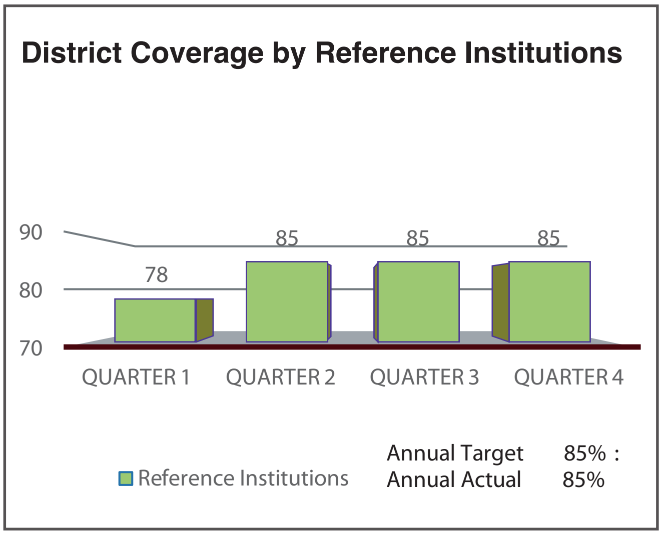
We increased our business development support to clients through trainings in financial management, enterprise diversification and selection, corporate governance and proper record keeping.

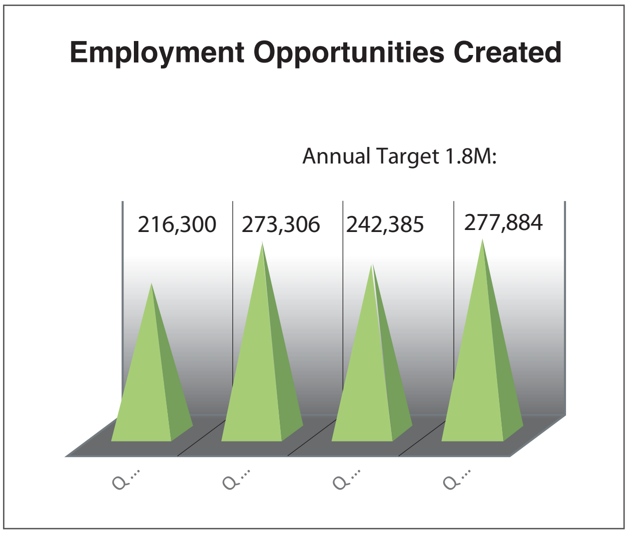
SACCOs Digitized

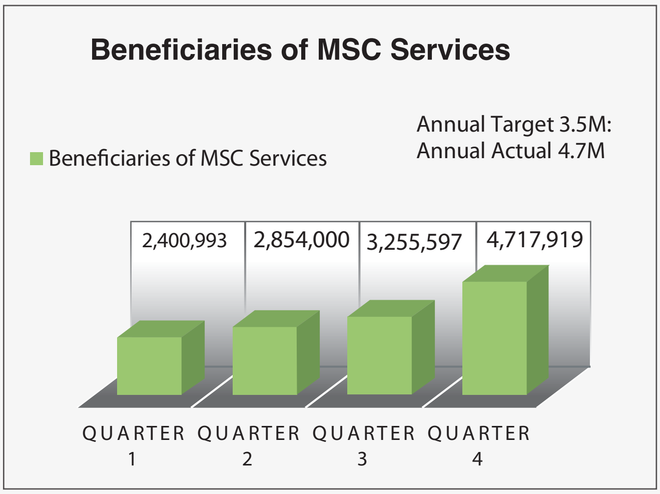
1. Mityana Municipality Mechanics Emyooga SACCO
2. Mityana Municipality Market Vendors Emyooga SACCO
3. Mityana Municipality Produce Dealers Emyooga SACCO
4. Mityana Municipality Restaurant Owners Emyooga SACCO
5. Mityana Municipality Saloon Operators Emyooga SACCO
6. Mityana Municipality Taxi Operators Emyooga SACCO
7. Mityana Municipality Women Entrepreneurs Emyooga SACCO
8. Mityana Municipality Constituency Welders Emyooga SACCO
9. Music Instrument Players SACCO, Kampala
10. Kawempe I Bodaboda SACCO, Kampala
11. Makindye Cluster B Saloon Operators Emyooga SACCO, Kampala
12. Lugazi Municipality Produce Dealers SACCO
13. Mbarara City North Produce Dealers Emyooga SACCO
14. Isingiro North County Produce Dealers Emyooga SACCO
15. Iganga Municipal Constituency Tailors Emyooga SACCO
16. Bunya West Constituency Market Vendors SACCO
17. Winnex Financial Services
18. Pesanet-Services-Smc-Ltd
19. Iganga Taxi Owners, Drivers and Conductors SACCO
20. Mayuge Action For Social And Economic Transformation
21. St. John Bosco Seminary Old Boys' SACCO

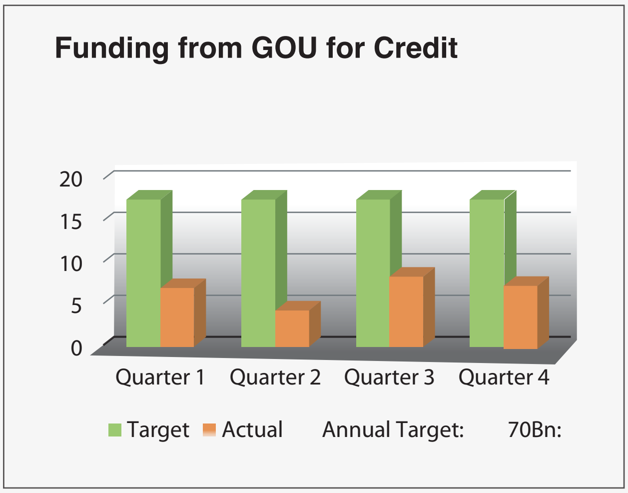
Performance Review

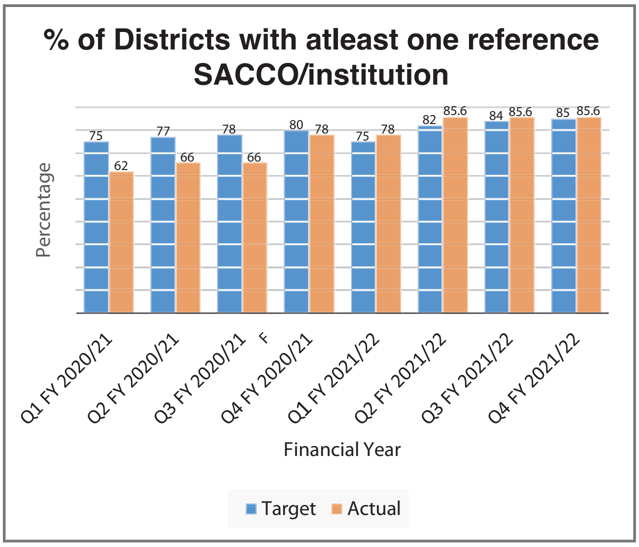
The performance assessment is based on 10 Strategic Objectives, Measures, and Targets as set in MSC's Strategic Plan (2020-2025). There was an overall 14% increase in achieved objectives for FY 2021/22 compared to FY 2020/21. During the period under the review, the Company achieved 85% coverage through the establishment of reference institutions. 1.09 million employment opportunities were created against a set target of 1.8 million; while beneficiaries of MSC's financial and business development services surpassed the annual target by 1.2 million.

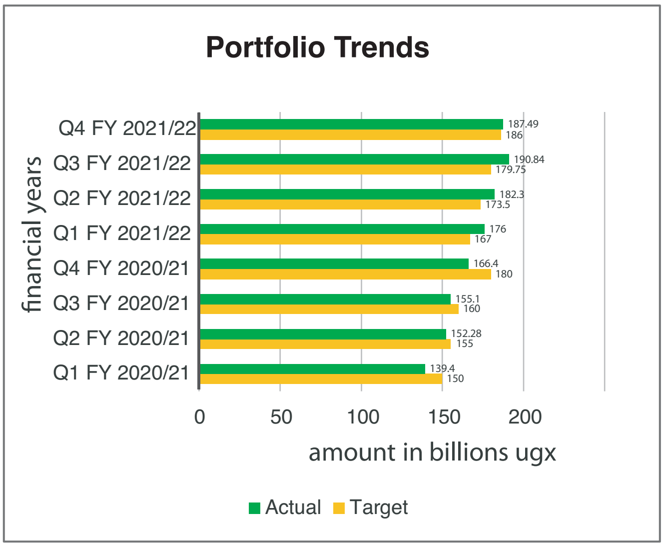


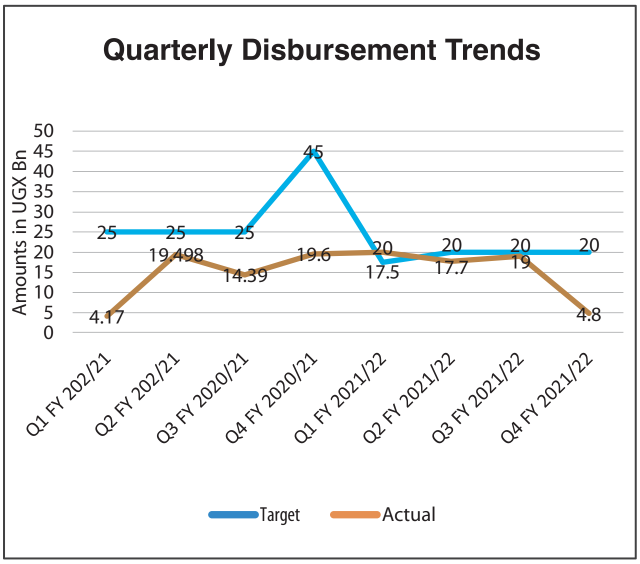


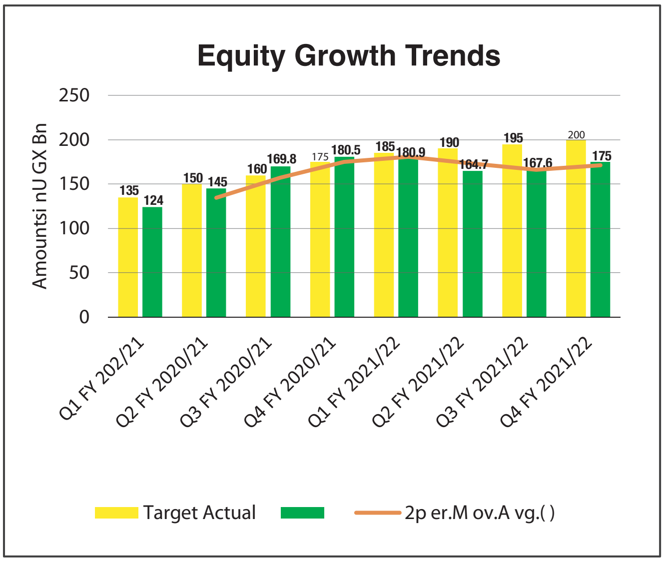




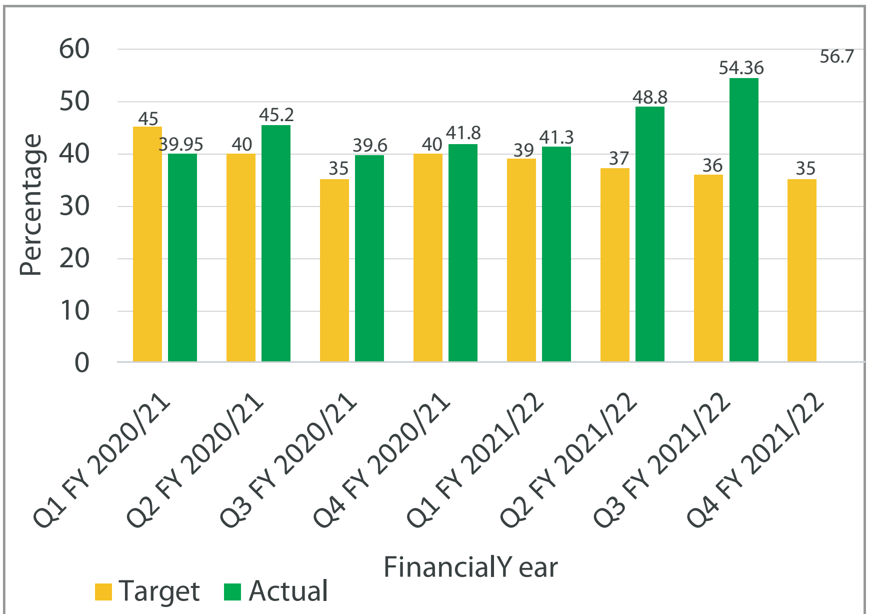


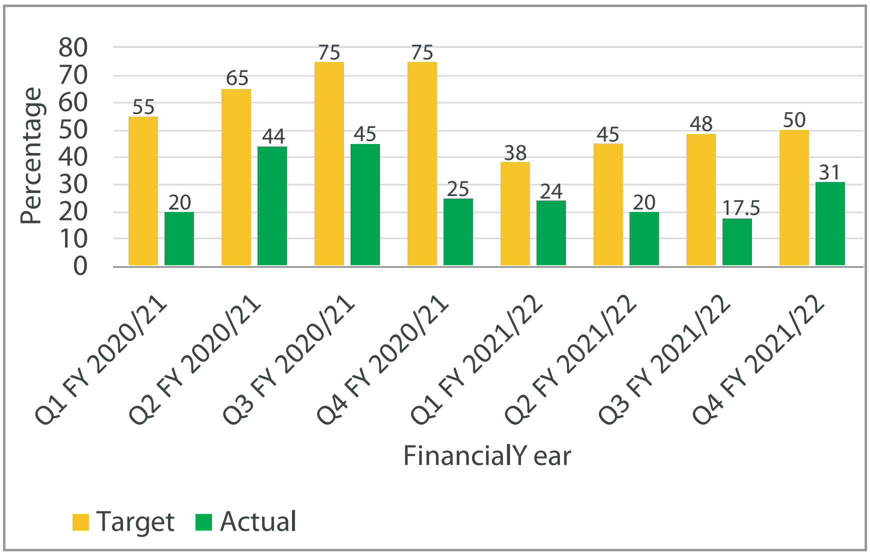






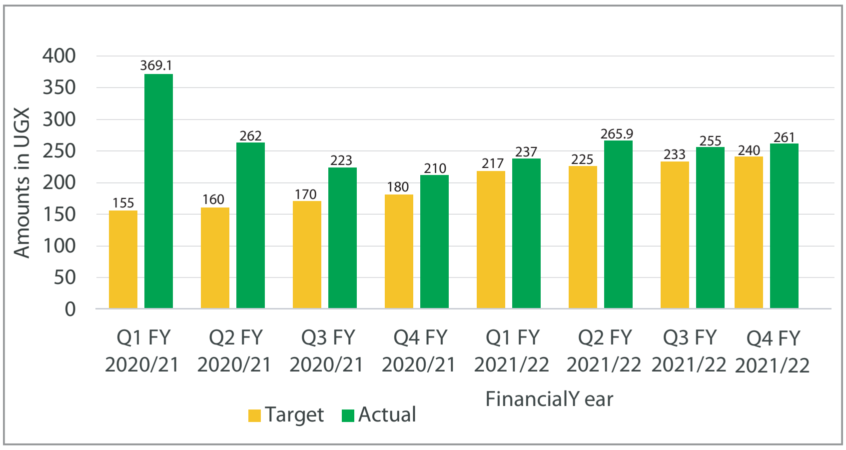
Portfolio At Risk (PAR) Trends





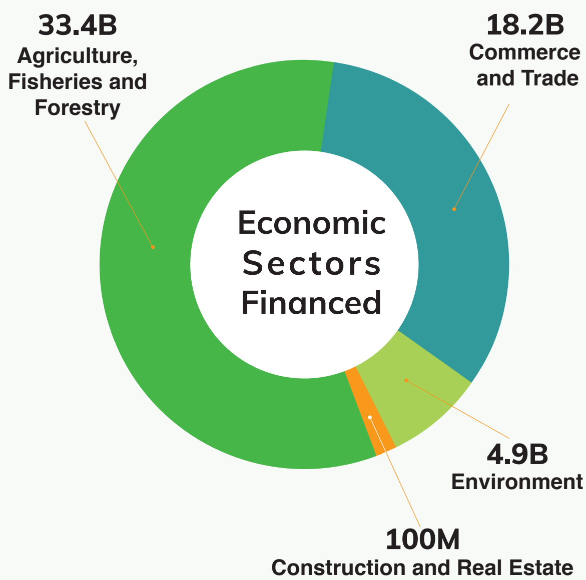
Collection rate trends as at March 2022

Total Asset Size



Collections and Portfolio Quality

The Company's total portfolio as at June 2022 stood at **UGX 187.49Bn** comprising **UGX 145.8Bn** under conventional loans and **UGX 41.6bn** under Islamic financing, compared to **UGX 190.8bn** comprising **UGX 149.1bn** for conventional and **UGX 41.7Bn** under Islamic Finance in the period ended March 2021. The slight decline in the total portfolio was due to Management's decision to put more effort into recoveries and scale down on disbursements.



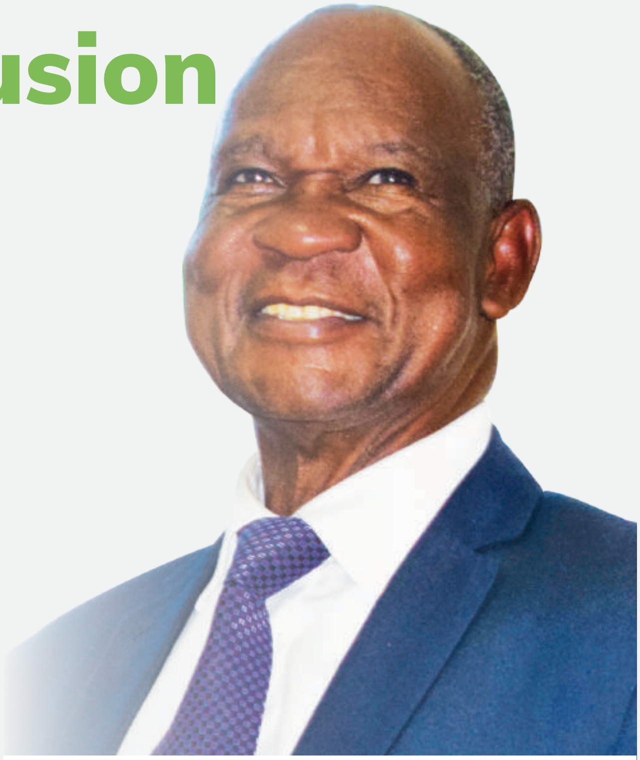
Celebrating 20 Years of Financial Inclusion

The Company organized a series of activities to mark its twentieth anniversary, starting with **a Memorial Lecture in honor of the Late Dr. Kisamba-Mugerwa**, who diligently served MSC as the Chairperson of the Board of Directors from 2018 until his unfortunate demise in 2021. The event attracted 350 individuals drawn from both private and public sector institutions, including high-profile guests namely:

- The Minister of Finance, Planning and Economic Development, Hon. Matia Kasaija
- The Permanent Secretary/Secretary to the Treasury, Mr. Ramathan Ggoobi
- Former State Minister for Investments, Prof. Ssemakula Kiwanuka
- UPDF Spokesperson, Brig. Gen. Felix Kulayigye
- The Vice Chairperson, Planning and Economic Development Committee of Parliament, Hon. Jayne Avur Pacuto.

R-L Dr. Fred Muhumuza (Makerere University), Dr. Rachel Mindra (MUBS) and Mr. James Khakshi (BRAC) during the panel discussion on the role of microfinance in spurring the ghetto economy.

L-R PSST Ramathan Ggoobi, Hon. Matia Kasaija, Dr. Aliba (MSC Board Chairperson) and Mr. JP Mujuni (MSC Executive Director) pose for a photo after the event



The Late Dr. Kisamba Mugerwa

At the event, the Late Dr. Kisamba-Mugerwa was hailed for his contributions to the country's socioeconomic development. His extensive research and work with the ghetto youth, in particular, was highlighted as having provided a source of livelihood for the youth, who now have several enterprises that have created employment opportunities for scores of other ghetto youth. A 7-minute tribute video was played, where friends and beneficiaries of his tireless efforts shed more light of the kind of person he was.

Subsequently, the role of microfinance in spurring the ghetto economy was underscored during a panel discussion with industry experts, among them Dr. Fred Muhumuza (Makerere University), Dr. Rachel Mindra (Makerere University Business School) and Mr. James Khakshi (BRAC Uganda). The session allowed for an interactive discussion with the audience on how the ghetto economy can be supported further.

The event concluded with the Minister of Finance, Planning, and Economic Development launching the Emyooga Savings Challenge.

Hon. Matia Kasaija speaks to ghetto youth financed by MSC

The Family of the Late Dr. Kisamba-Mugerwa addressing guests at the event

Minister for Finance, Planning and Economic Development, Hon. Matia Kasaija, launches the Emyooga SACCO Savings Challenge

The Late Dr. Kisamba- Mugerwa during a visit of Tumboboi Grandmothers' Association in Kapchorwa.

The Late Dr. Kisamba- Mugerwa pays a courtesy call to distict officials in Bundibugyo during a fact finding mission on potential businesses to support in the sub-region

Stakeholder Engagements

The company organized two stakeholder engagements in Mbale and Soroti, attracting a total of 370 participants including district officials, political and opinion leaders, and grant/loan clients. The engagements were aimed at reconnecting with stakeholders and presenting MSC's successes in the two zones over the last 20 years. Both grant and loan clientele gave testimonials of MSC's impact on their businesses and the communities they live in. Discussions about Emyooga, its successes and challenges were held during the dialogue sessions, which enlightened participants about the program. Savings walks were organized through the busiest part of the host towns, enhancing MSC's visibility. Radio talk shows were conducted on popular radio stations namely Elgon Fm in Mbale and Voice of Teso in Soroti, whose listenership covers the two sub-regions and the Western parts of Kenya.

During the engagements, MSC recognized the best mainstream clients in the categories of reference institutions, SACCOs and VSLAs; while grant clients were given certificates of appreciation and encouraged to participate in the ongoing Emyooga SACCOs Savings Challenge.

Chairperson Ngora SACCO receives plaque for best performing MSC SACCO client in Soroti

The Resident City Commissioner - Soroti, Peter Paax, opens the engagement session

Chairperson Ngora SACCO receives plaque for best performing MSC SACCO client in Soroti

Nabatwa Cattle Traders, former cattle rustlers, receive an award for best performing group in Moroto Zone.

Invited guests from the Muslim community gather for prayers to break the fast

Engagement with the Muslim Community

MSC hosted 270 members of the Muslim community for Iftar dinner at Hotel Africana, Kampala, in an effort to build synergies with the Muslim community. MSC leveraged the occasion to showcase its support to the Muslim community over the last 20 years and to emphasize its position as a thought leader and pioneer in the implementation of Islamic Finance in Uganda. Among notable guests that graced the event were: Hon. Minsa Kabanda, Minister for Kampala Metropolitan Affairs (Guest of Honor); Hon. Kasule Lumumba, Minister for General Duties; Hon. Syda Bbumba, former Finance Minister; Mr. Ramathan Ggoobi, PSST; Ambassadors from the Nigerian and Omani High Commissions in Uganda; Members of Parliament; representatives from the Islamic Development Bank; representatives from various MDAs include Ministry of Finance, Office of the President and Office of the Prime Minister; and the academia.

Hon. Kasule Lumamba (L) and former Finance Minister, Hon. Syda Bbumba exchange pleasantries.

Members of MSC's Senior Management Team at the dinner.

The Presidential Initiative on Wealth and Job Creation (Emyooga)

The Presidential Initiative on Wealth and Job creation (Emyooga) was launched in August 2019 as part of the Government's strategy to transform 68% of homesteads from subsistence to market-oriented production. The initiative targets 18 specialized enterprises (Emyooga) including boda-boda operators, women entrepreneurs, carpenters, salon operators, taxi operators, restaurant owners, welders, market vendors, youth leaders, Persons with Disabilities, produce dealers, mechanics, tailors, journalists, performing artists, veterans, fishermen, and elected leaders.

Disbursements

As at June 2022, MSC disbursed **248.1Bn** to **6,634 Constituency Based SACCOs** in **146 districts and cities**. So far, **UGX 210Bn** has been disbursed to **58,700 Parish Associations** through their Emyooga SACCOs.

In a bid to strengthen the financial capacity of EMYOOGA SACCOs with bigger membership and improved performance, an additional seed capital of **UGX 20M was disbursed to 171 SACCOs amounting to UGX 3.42BN**. The SACCOs that benefitted from the additional funds registered remarkable improvement in aspects of governance, loan recoveries, maintained proper books of accounts, and savings, among others.

Savings

As at June 2022, the total Emyooga SACCO savings stood at **UGX 67.1Bn**. To encourage a culture of savings, the Minister of Finance Planning & Economic Development launched the Emyooga SACCOs Savings Challenge in March 2022. As at June 2022, **2,300 Emyooga SACCOs** had picked forms to participate in the challenge, which culminates in October 2022. The winners of the Savings Challenge will be rewarded with safes, office furniture, motorcycles and computer equipment.

Capacity Building, Technical Assistance and Business Advisory Services

As at June 2022, 6,979 SACCO leaders (4,551 male and 2,425 female) from 1,708 Emyooga SACCOs in 128 constituencies had been trained in mindset change, SACCO governance, resource mobilization (savings, shares, and grants management), credit & delinquency management, basic bookkeeping, enterprise selection, planning, and management, and Islamic microfinance. In addition, 40 locally based trainers, and 56 District Commercial Officers were offered a Training of Trainers program in permanent registration and licensing, in order to support Emyooga SACCOs to comply with SACCO registration and operation guidelines.

MSC commissioned the sensitization of political leaders from the parish level up to the district level including Members of Parliament to provide more information on the operations of Emyooga Program. The sensitization drive started in the greater Masaka area and was spearheaded by the State Minister for Microfinance, Hon. Haruna Kasolo Kyeyune. As a result, a total of 3,720 leaders comprising parish, sub-county, and district councilors, chairpersons, and technical staff (CDOs, SAS, DCDOs, DCOs, and CAOS), as well as religious leaders and area MPs were sensitized.

Registration and Licensing

The Emyooga SACCOs were registered by the Registrar of Cooperatives under section 25 part 55A(3) of the Cooperative Societies (Amendment) Act 2020, on probation for a period of two years, after which they are expected to be permanently registered, depending on their performance.

The Uganda Microfinance Regulatory Authority (UMRA) is mandated to license all SACCOs, Emyooga SACCOs inclusive.

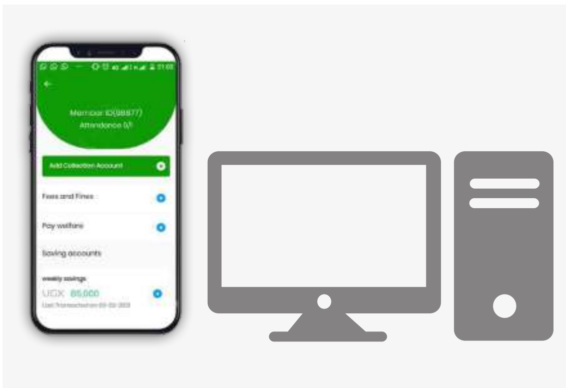
By December 2022, some of the Emyooga SACCOs will have completed their probationary period, and thus need to be licensed, regulated, and supervised.

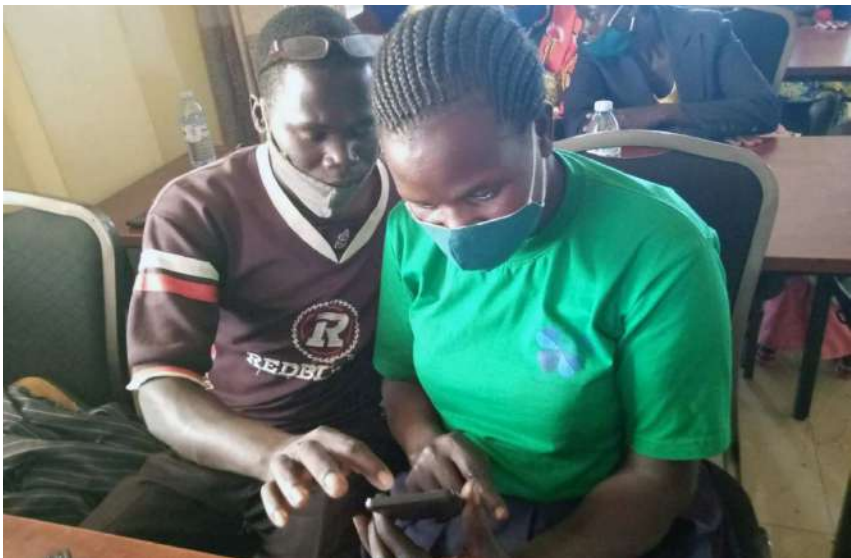
Governance

Out of 6,654 SACCOs funded, **3,903 had held AGMs** to discuss their financial and physical performance and to plan for their next year. In addition, **2,196 SACCOs conducted audits** through support of MSC to enable them to conduct AGMs, appraise the performance of the SACCOs, and provide accountability to members.

Digitalization

During the lockdown imposed as a measure of curbing the spread of the Covid-19 pandemic, some of the Emyooga SACCOs were unable to operate due to restrictions on gatherings and movement. MSC embarked on a digitalization program for the SACCOs to ensure business continuity and simplify record keeping with transparency and accuracy in savings, loans, payments, and member details. To that end, **16 Emyooga SACCOs and 382 Parish Based Associations were supported** for digitalization.





Islamic Financing

Under the Islamic Finance window, the company disbursed UGX 1.15Bn to 10 projects compared to UGX 2.2Bn processed in the quarter ending March 2022. Cumulatively, 314 client projects have been financed to a tune of UGX 83Bn.

MSC staff assessing boats procured for fishermen along Lake Kyoga

Local Economic Growth Support (LEGS) Project

The Company is implementing the LEGS Project in partnership with MoLG to a tune of USD 10M. The project is to be implemented in a period of 5 years in 17 districts. This is the third year of implementation.

In the quarter ended June 2022, disbursement was made to six (6) projects worth UGX 136M. This brings the cumulative projects funded to 77 worth UGX 3.184Bn as at Q4 FY 2021/22 benefiting 5,683 individuals. The slow progress of the project is attributed to among other things; the delay in developing and operationalization of the LEGS Operations manual. However, this was resolved in April 2022 at a project review retreat where one of the key action points was to finalize and disseminate the manual. The manual was developed and is in the process of dissemination to stakeholders for operationalization. In addition, Management's decision to scale down on disbursements.

To date, the project has funded acquisition of farm inputs along the agricultural value chain (sunflower, hot pepper, maize, ground nuts, honey etc.), provision of water sources in the districts of the cattle corridor, funding for off takers of agricultural produce especially SMEs.

Signature Projects

In 2019, Management resolved to move beyond simply lending. The decision paved way for the creation of signature projects through which MSC could reach more beneficiaries at the grassroots. During the period under review, five signature projects were established as shown below:

Livestock (Cattle, Goats & Sheep) Project Kiruhura District

102 individuals trained in animal husbandry

The farm **employs 18** people

The farm has 208 heads of cattle, 233 goats & 319 sheep

Piggery in Rukungiri District

The project has benefited **97 Groups** consisting of **1,866 individuals**.

Each Group **received 2-3** piglets.

These include women, youth and PWDs

The project has **35** direct beneficiaries and 275 indirect beneficiaries

The target beneficiaries are the albino community

Rice growing in Kween District

The project beneficiaries are Youth & Women in slums/ghettos

They are trained in welding, Carpentry & making of construction materials like pavers, bricks

Skills Development in Kampala

1,011 individuals have benefited from the project, generating **income totaling to UGX 69M** and expanded to Mukono, Masaka and Kasese groups

Rabbit Keeping in Luweero District

Persons Living with Albinism dry their harvested rice. The group received a grant from MSC to invest in rce farming as a source of livelihood

State Minister for Microfinance, Hon. Kasolo Kyeyune interacts with Kirwanira Women's Group financed by MSC to rear guinea pigs and rats for scietific purposes

Success Stories

The Microfinance Support Centre has 17 offices evenly spread across the country. These include: Kabale, Mbarara, Masaka, Jinja, Kabarole, Kampala, Soroti, Hoima, Kiwoko, Mbale, Moroto, Lira, Luweero, Arua, Ngoma, Iganga and Ntugamo. The presence of the offices in the zones ensure that financial services are taken closer to the communities and are localized to suit their diverse and particular needs.

The success stories highlighted below are taken from five sampled zones namely: Kabale, Mbarara, Hoima, Lira and Iganga to assess the impact of MSC's services on its target clients.

Kabale Zone

Mubuga SACCO operates in areas of Mubuga, Nyaruziza, Bunagana, Nyakabande and Kisoro.

The SACCO first accessed a loan of UGX 6,000,000 from MSC in 2006. At the time, the Society's membership stood at 327 members with a total saving of UGX 2,695,472. Upon successful repayment of the loan, MSC continued to graduate the SACCO's loan amounts over the years from UGX 20M to UGX 80M to 100M to 250M and running amount of UGX 350M.

The loans enabled the SACCO to reach out to all sub counties in Kisoro district, hence mobilizing over 1,000 members. To date, the SACCO has registered its successes as follows;

- Growth in member savings from UGX 2,695,472 in 2006 to UGX 2,071,329,381 in the period under review.
- Growth in member share capital from UGX 11,960,000 to UGX 704,000,000.
- Increased loan portfolio from UGX 19,624,320 to UGX 5,500,000,000.
- Financial support to smaller groups in Kisoro district.

Among members the SACCO has supported are Safari Innocent and Kwizera John, who have been members of Mubuga SACCO since 2005. They set up a number of income generating projects, including Safari Home Stay Lodges, a high class accommodation facility boosting the tourism and hospitality industry of the sub-region. The duo constructed five cottages with the funds they borrowed from the SACCO, which are now priced at USD100 and UGX 100,000 per night for foreigners and Ugandan nationals, respectively. The business employs twenty youth from the community and hopes to employs scores more when they expand to include a children's park, swimming pool and other recreational facilities in future.

L-R: Safari Innocent, Kwizera John and MSC staff pose for a photo at the premises

Besides the cottages, Safari Innocent and Kwizera John also jointly own Volcano Maize Millers, a maize production enterprise. In 2020, the duo purchased a maize processing plant using funds they had borrowed from the SACCO. Since the inception of the business, the duo has supported local farmers in the area who sell their harvest to the company at fair prices. The company employed five youth who were trained in food processing techniques and taught how to conduct platform tests on maize seeds when purchasing from farmers; and fifteen women on a casual basis to glean the grain. As the demand for milled maize increases, the duo hopes to employ even more youth and women.

Mr. Safari demonstrates the functionality of the maize plant to an MSC staff during a beneficiary monitoring exercise.

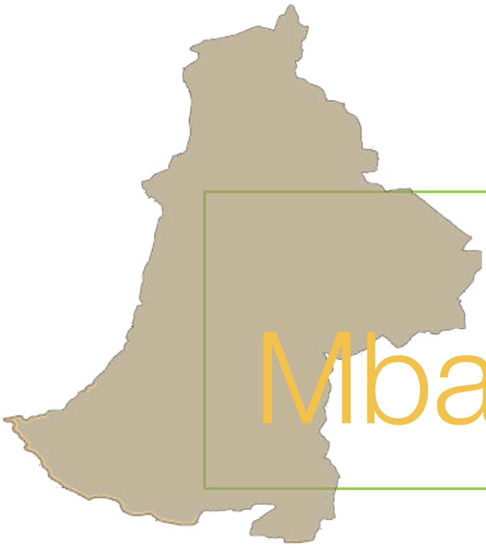
Mr. Safari explains how tests are carried out on maize to detect moisture content prior to making a purchase

Kebisoni Abakazi Tukore Development Group started in 2006 as a savings group for widowed women under the guidance of Canon Ketrah Bamuronde. The Group started with four members and later registered as a community-based organisation, operating in Kanyamutwe village, Kebisoni sub-county, Rukungiri district, Western Uganda. Over the years, the Group has grown to 40 members, engaging in a variety of activities such as crop farming, trading and cattle keeping.

Kebisoni Group has so far accessed two loan facilities totalling to UGX 65,000,000 for on-ward lending to members. Aside from the joy of seeing her initiative grow from strength to strength, Canon Ketrah has reaped the benefits of the loan facilities that were extended to the group. As a commercial farmer, she has used the loans she borrowed from the Group to boost her agribusinesses. She owns a five-acre banana plantation which yields between 100 to 150 bunches of banana a month, generating an income of UGX 1,000,0000 to UGX 1,500,000 a month. She also owns an acre of coffee trees from which she harvests 200kgs per season. This fetches her an income of UGX 4,000,000 a year. She has an acre of pineapples and passion fruit, rears poultry and rabbits, and processes ghee as additional income streams.

Canon Ketrah attributes most of her farming success to MSC's financing as the funds have enabled her to employ over 10 people on a part time basis to help with her projects, and supply food to the domestic market at affordable prices. She hopes to scale to a commercial poultry keeper with MSC's continuous intervention, she believes she will achieve her dream.

Night Kamagara is also a member of the Group. She deals in coffee production, a business she started in 2006 with UGX 300,000. She reaped UGX 1,000,000 from the investment and ploughed it back to the business the following year. In the course of running her business, she learnt about Kebisoni Abakazi Tukore Development Group and decided to join. She says she felt a sense of belonging when she joined the group and was inspired to work hard when she saw her fellow women progressing with the support from the Group. When MSC capitalized the Group, she took a loan for working capital and managed to secure thirty 100kg bags of coffee at UGX 100,000 each, which she dried and sold at a mark-up of UGX 350,000 per 50kg. She also adds value to the coffee and sells to restaurants and shops in Rukungiri district.



Mbarara Zone

Kyamuhunga People's Cooperative Savings and Credit Society Limited started operations in November 1998 and was registered on 14th June 2004. As of 21st March 2021, the SACCO was owned by 28,593 members: 20,317 male, 6,424 female and 1,852 groups.

The SACCO has received a total of 15 loan facilities from MSC, totalling to UGX 3,685,000,000 since 2003. The financing over the years has enabled the SACCO increase membership and open four branch offices in an effort to take services closer to the people. The funding has enabled the SACCO to support many tea farmers with working capital to keep them afloat, and create direct employment to 53 members of the community.

Fridah Turyahikayo is a mother of 9 children and a member of a group under Kyamuhunga People's SACCO. She started her produce business with a loan of UGX 500,000, which she serviced on time and was able to access additional loans thereafter. The loans have boosted her working capital and enabled her business to grow tremendously. Through the SACCO, she has also acquired school fees loans for her children, who were all at home at one time for lack of school fees.

Today, she prides in the success of educating her children. Her first three children completed their university education and are teachers in private schools in Kampala and Mbarara. The fourth child is studying Information Technology and is expecting to complete his studies in 2023. The three that follow are currently in secondary school while the last two are in primary school.

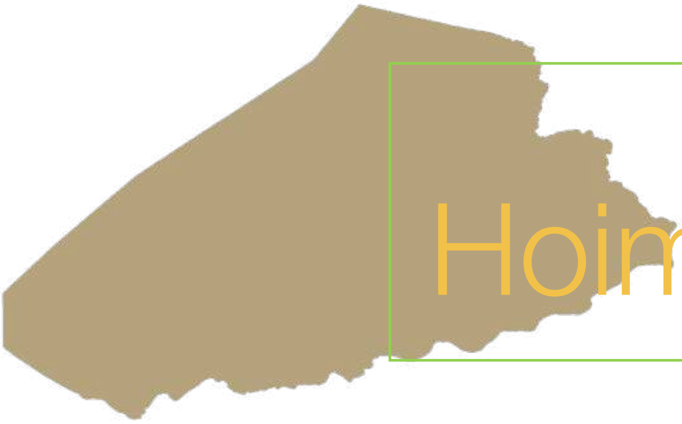
Kajribu Fred is the District Councilor for Persons with Disabilities in Mitooma district. He is a coffee and sugarcane farmer, and a brewer of local wine. In the early 1980s, Mr. Kajribu lost his leg during a raid by former regime soldiers as he was suspected of joining the NRA rebels. He is one of the oldest members of the SACCO, having joined in 1998. He attributes all his wealth to the SACCO, which he says has been a pillar of progress to him and many others.

Before joining the SACCO, he was a subsistence farmer but was inspired to advance to commercial farming after joining the SACCO. He acquired a loan of UGX 8,000,000 to buy land for coffee production but started with rice growing, which yields faster than coffee. He later requested for an overdraft to buy coffee seeds and used the proceeds from the rice to service his loan.

On average, Mr. Kajaribu harvests at least 70 bags of dried coffee per season which generates an income of Sh. 17,500,000. Over the years, he expanded his garden to plant green bananas and sugarcane from which he produces 20 drums of local brew. The business fetches UGX 1,600,000, which he uses to service his loan and cover operational expenses.

He is extremely grateful to MSC for the immense financial boost that has been rendered to the SACCO. Without which, he adds, he and other members would not have achieved the successes he registers such as:

- Upgrading to a modern house from a grass thatched house.
- Acquisition of a Mitsubishi Canter and a motor cycle to transport his produce and monitor his farm, respectively.
- Being a model farmer, attracting community members who he trains on modern agricultural practices.
- Creation of employment for 28 people.
- Educating his two sons who are currently certified medical doctors



Hoima zone

Rido SACCO has been operational since 2009 and has maintained a close working relationship with MSC for over 10 years, during which the SACCO received a total of UGX 150,000,000. SACCO membership increased from 1,239 to 1,703 members with 300 women and 98 groups from 2015 to 2017. This led to increase in savings, SACCO portfolio and share capital. The SACCO was further able to create employment for six people as a result.

Grace joined Rido SACCO in 2018, having been inspired by her husband who had joined the SACCO in 2009. Membership to the SACCO has given him access to loans which he used to acquire a plot for construction, engage in agriculture and educate their children.

Impressed by the professional services offered by the SACCO, Grace mobilized women from Buramagi village and formed a group called Buramagi Tweimukye Savings and Loans Association. In 2018, the group borrowed UGX 3,000,000. Grace was granted a loan of UGX 400,000 which she topped up with her personal savings and invested in farming. She got good returns and proceeded to open a shop in Igayaza town council.

The business now brings in sufficient income to support her husband in paying school fees for the children and catering for the family. Through the SACCO, Grace has developed a savings culture which she believes is critical for personal development.

Banjirana Obedi has a hardware and metal fabrication shop and has been a member of Rido SACCO since 2009. In 2010, he was dealing in produce and borrowed UGX 50,000 from the SACCO which he added to his savings of UGX 37,500 to buy maize and beans for resale.

Obedi further explained that at that time, he would use a bicycle to transport his commodities from his suppliers to his customers. He continued with short term borrowing of UGX 50,000 for 3 consecutive times until the SACCO granted him a loan of UGX 500,000 for 6 months. The funds helped him to set up a metal fabrication and hardware shop in 2012.

With continuous support from the SACCO, his business grew since then, paving way for diversification into other enterprises. Today, he is a proud owner of a fuel station, rental units, and a dairy farm. He has educated his children, two of whom have completed their university studies. He has created employment for 13 youth in Kakumiro district and set up a skilling centre for other youth to learn metal works.

Lira zone

Mamiyo Savings and Credit Group is a registered VSLA located at industrial area village, Libraray parish, Layibi Division, Gulu. Its model of operation slightly differs from the operations of other groups in that the SACCO also finances members of the community that are not directly affiliated to the group. The group has so far received three loans totalling to UGX 60,000,000.

Mamiyo started with 20 members who contributed UGX 20,000 for onward lending to members at low interest rates. In 2015, the group entered into partnership with Alite Cooperative Group, a financier. Unfortunately, Alite Cooperative Group collapsed leading to a loss of UGX 14,935,500 for Mamiyo. Disappointed, members of Mamiyo stopped saving with the group and opted out. MSC came in at the right moment and saved the day with an initial loan of UGX 15,000,000 in 2016. With subsequent financing, the members who left started to return and now the group boasts of 150 active members.

Charles Otim is a veteran living with disabilities. He was abducted by the Lord's Resistance Army (LRA) rebels at a young age and returned home when the movement was expelled out of Uganda by the National Army. He struggled to make ends meet but a temporary job with World Food Programme was his gateway to a steady income albeit only for a few months. He saved some of his salary and later joined Mamiyo Savings and Credit Group from which he acquired a loan of UGX 3,000,000 to invest in buying and selling of produce. From the proceeds, he ventured into other enterprises, including brick laying, tailoring and water vending, which increased his household income. Knowing the importance of education, Charles decided to return to school to enhance his literacy and education levels.

Iganga Satellite Office

Iganga Taxi Owners and Drivers SACCO

In 2020, the SACCO received a records management system called Jamii, along with computer hardware worth UGX 8,000,000. Before MSC's intervention, the SACCO would manually maintain a file for each of its 600 clients, which was draining and time-consuming when trying to trace a file. However, since the migration to digital systems, membership increased to 844 as service delivery greatly improved in efficiency. The staff were trained adding to their skills and increasing productivity. With more appreciation for the efficiency in service, the SACCO management has registered higher motivation among the employees, which has a positive impact on the business. Furthermore, the system enables loan tracking for members' performance and they are able to intervene where a member is not doing well.

Chrissy Nalubiri is a member of the SACCO and highly appreciates the digitalized processes. He says he now gets real time messages on his savings, loan balance and repayment due dates. He added that his loyalty to the SACCO multiplied because he feels he is now dealing with a credible institution.

Financial Statements

OFFICE OF THE AUDITOR GENERAL

THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF MICROFINANCE SUPPORT CENTRE LIMITED FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2022

OFFICE OF THE AUDITOR GENERAL
UGANDA

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF MICROFINANCE SUPPORT CENTRE LIMITED FOR THE YEAR ENDED 30TH JUNE, 2022

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Microfinance Support Centre Limited (MSCL) for the financial year ended 30th June 2022, which comprise the statement of Financial Position as at 30th June 2022, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows together with other accompanying statements for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Microfinance Support Centre Limited as at 30th June 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), and the requirements under the Companies Act of Uganda, 2012.

Basis for Opinion

I conducted my audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Centre in accordance with the Constitution of the Republic of Uganda 1995 (as amended), the National Audit Act (NAA), 2008, the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (IESBA Code), and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were the most significant in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have determined the matters described below to be key audit matters communicated in my report.

1.0 IMPLEMENTATION OF THE APPROVED BUDGET

On 23 September 2021, the Board approved the annual budget for financial year 2021/2022, which specified the resource available for the year and the outputs to be achieved. Over the years, I have undertaken evaluations of the performance of the budget and the extent to which planned out-puts have been achieved.

I am also aware that entities continued to face the effects of Covid-19, which affected their budgets' performance and planned activities' implementation. Against this

Other Legal and Regulatory Requirements

As required by the Companies Act, 2012 of Uganda, I report to you, based on my audit, that;

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the audit;
ii. In my opinion, proper books of account have been kept by the Centre, so far as appears from my examination of those books; and
iii. The Centre's statement of financial position and statement of comprehensive income are in agreement with the books of account.

John F. S. Muwanga
AUDITOR GENERAL

20th December, 2022

The Microfinance Support Centre Limited (A Company limited by Guarantee)
Annual report and financial statements
For the year ended 30th June 2022

STATEMENT OF FINANCIAL POSITION

Assets	**Notes**	**Ugx 2022 Shs'000**	**Ugx 2021 Shs'000**
Cash and cash equivalents	10	73,441,059	36,052,288
Loans and receivables at amortised cost	11	144,971,561	117,220,647
Other receivables	12	22,173,073	14,799,382
Financing Receivables	13	20,594,576	29,584,276
Inventories	14	92,386	76,076
Property and equipment	15	3,812,127	4,582,948
Right-of-use assets	16	600,903	1,145,349
Intangible assets	17	228,596	448,015
Total assets		265,914,281	203,908,981
EQUITY			
PAP funds		3,180,752	3,180,752
NSADP		1,597,790	1,597,790
RMSP funds		23,438,266	23,438,266
GOU Credit funds		170,773,146	144,862,922
RIEEP funds-AFDB		29,818,281	29,818,281
RIEEP funds-ISDB		31,429,395	31,429,395
LEGS-ISDB		3,132,816	2,236,816
Accumulated losses		(60,841,971)	(49,740,522)
Total equity		202,528,475	186,823,700
Liabilities			
Trade and other payables	19	5,722,717	3,492,620
Deferred Income	18	56,765,144	13,118,799
Lease liabilities	9	874,578	310,578
Administered fund	21	23,367	163,279
Total liabilities		63,385,806	17,085,276
TOTAL EQUITY AND LIABILITIES		265,914,281	203,908,976

NOTE: Under Equity (RIEEP funds-IDB), includes both funds from LEGS and RIEEP under Islamic Mode of financing

The financial statements on pages 9 to 40 were approved and authorised for issue by the Board of Directors on 22nd Dec 2022 and were signed on its behalf by:

CHAIRPERSON **DIRECTOR** **EXECUTIVE DIRECTOR/CEO**

The Microfinance Support Centre Limited (A Company limited by Guarantee)
Annual report and financial Statements
For the year ended 30th June 2022

STATEMENT OF CHANGES IN EQUITY

	PAP funds	RMSP funds	NSADP funds	GOU credit funds	RIEEP funds AFDB	RIEEP funds-IDB/LEGS	Retained earnings	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30th June 2022								
At start of year	3,180,752	23,438,266	1,597,790	144,862,922	29,818,281	33,666,211	(49,740,522)	186,823,700
Profit/Loss for the period	-	-	-	-	-	-	(11,101,449)	(11,101,449)
Transfer from deferred income (GOU SACCO Fund)	-	-	-	25,910,224	-	896,000		26,806,224
	3,180,752	23,438,266	1,597,790	170,773,146	29,818,281	34,562,211	(60,841,971)	202,528,475
Year ended 30 June 2021								
At start of year	3,180,752	23,438,266	1,597,790	144,862,922	29,818,281	31,429,395	(39,241,841)	195,085,565
Profit/Loss for the period	-	-	-	-	-	-	(10,498,681)	(10,498,681)
Transfer from deferred income (GOU SACCO Fund)	-	-	-	-	-	2,236,816	-	2,236,816
At end of year	3,180,752	23,438,266	1,597,790	144,862,922	29,818,281	33,666,211	(49,740,522)	186,823,700

The Microfinance Support Centre Limited (A Company limited by Guarantee)
Annual report and financial statements
For the year ended 30th June 2022

STATEMENT OF CASH FLOWS

	Notes	2022 Shs'000	2021 Shs'000
Operating activities			
Cash generated by operations	20	(37,502,535)	(20,284,562)
Interest paid on lease liabilities	9	(70,769)	70,769
Net cash from operating activities		(37,573,304)	(20,213,793)
Cash flows from in investing activities			
Cash paid for purchase of property and equipment	15	(115,556)	(3,141,472)
Cash paid for purchase of Intangible Asset	17	(171,268)	(23,600)
Net cash used in investing activities		(286,824)	(3,165,072)
Cash flows from financing activities			
(Decrease) / increase in administered funds	21	43,506,432	(27,402,384)
Proceeds from funding		33,523,161	30,236,585
Payments of principal portion of the lease liability		(1,663,134)	(1,062,054)
Net cash from financing activities		75,366,459	1,772,147
Increase / (decrease) in cash and cash equivalents		37,506,331	(21,748,256)
Movement in cash and cash equivalents			
At start of year		36,052,287	34,720,071
Increase / (decrease)		37,388,771	1,332,216
At end of year	10	73,441,058	36,052,287

NOTES

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

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 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 or value in use in IAS 36.

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 aredescribed 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. 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 24.

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.

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 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1 and IAS 8 Definition of Material (issued in October 2018)
The amendments, applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Company (continued)

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform (issued in September 2019)
The amendments, applicable to annual periods beginning on or after 1 January 2020, provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Company as it does not have any interest rate hedge relationships.

Conceptual Framework for Financial Reporting issued on 29 March 2018
The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Company.

Amendments to IFRS 16 Covid-19 Related Rent Concessions (issued on 28 May 2020)
The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these consolidated financial statements, the following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective for the year presented:

- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current (issued in January 2020), effective for annual periods beginning or after 1 January 2023, clarify a criterion for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date.

- Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Amendment to IFRS 9 Financial Instruments 'Fees in the '10 per cent' test for derecognition of financial liabilities' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted, clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The Company plans to apply the changes above, if applicable, from their effective dates.

NOTES

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Significant accounting judgements, estimates and assumptions

In the application of the accounting policies, the directors are required to make judgements,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.

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:

- 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 Companies 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).

- **Measurement of expected credit losses (ECL):**

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

- 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.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- **Measurement of expected credit losses (ECL): (continued)**

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 trade receivables, the Company has applied the simplified model under IFRS 9 where lifetime expected credit loss allowance is recognised on the basis of a provisioning matrix.

- **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, intangible assets 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 and intangible assets are disclosed in the respective notes.

- **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.

NOTES:

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- **Accounting for leases under IFRS 16 (continued)**

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
- 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.

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- 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).

1(a) - 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

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 carrying amounts of lease liabilities and right-of-use assets are disclosed in notes 9

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

(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.

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 15, 16 and 17, respectively.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgements, estimates and assumptions (continued)

c) Revenue recognition

Net interest income

Interest income and expense are recognised in the statement of profit or loss on accrual basis using the effective interest method. Interest income and expense include the amortisation of any discount at premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period), to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and charges paid or received transaction costs, and discounts or premium that are an intergal part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

d) Translation of foreign currencies

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 translated 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 translated using the exchange rates at the dates of the initial transactions. The resulting differences from settlement and translation of monetary items are dealt with in profit or loss in the year in which they arise.

e) Property and equipment

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

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 or loss during the financial period in which they are incurred.

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

	Rate %
Office equipment	12.50
Computer software	33.33
Motor vehicles	25.00
Furniture and fittings	12.50
Computer equipment	12.50

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property and equipment (continued)

The assets residual values and useful lives and methods of depreciation are reviewed, and adjusted prospectively, if appropriate,.

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 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. On disposal of revalued amounts in the revaluation reserve relating to the particular assets being disposed of are transferred to retained earnings in the statement of changes in equity.

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.

Computer software

Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be three years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

g) Impairment of non-financial assets and intangible assets

At the end of each reporting period, the directors review 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.

An impairment loss is recognised for the amount by which the carrying amount of an asset or a cash generating unit (CGU) 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.

h) Financial instruments

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)

Financial instruments (continued)

- Financial assets

All financial assets are recognised initially using the trade date accounting which is the date the Company commits itself to the purchase or sale.

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.

ii) **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 group has not identified a change in its business models.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the group has transferred substantially all risks and rewards of ownership, or when the group 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.

Financial instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) **Financial instruments (continued)**

- ***Financial assets (continued)***

Impairment

The group 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 comphrensive income (FVTOCI):

- Cash and cash equivalents
- Loans and advances to customers
- Other financial assets

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 loans and advances to customers 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).

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.

Renegotiated loans

Where possible, the company seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) **Financial instruments (continued)**

- **Financial liabilities**

  Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The company may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

- All other financial liabilities are classified and measured at amortised cost.

  All financial liabilities are recognised initially at fair value and, in the case of loans and and borrowings and payables, net of directly attributable transaction costs.

  All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the Company's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the Group does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

- **Derecognition**

  A financial liability is derecognised when the obligation under the liability is discharged 'or cancelled or expires. When an existing financial liability is replaced by another 'from the same lender on substantially different terms, or the terms of an existing liability are 'substantially modified, such an exchange or modification is treated as the derecognition 'of the original liability and the recognition of a new liability. The difference in the respective 'carrying amounts is recognised in profit or loss.

- **Offsetting financial instruments**

  Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a currently enforceable legal right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

i) **Financing Receivables**

Financing Receivables comprise Shari 'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudaraba and Istisna contracts. Financing receivables are recognised on the date at which they are originated and carried at their amortised cost less impairment allowance, if any.

Murabaha financing

Murabaha financing consist mainly of deferred sales transactions which are stated net of deferred profits and provisions for impairment, if any. Murabaha financing are sales on deferred terms. The Company arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

Mudarabah financing

Mudarabah is a distinct type of partnership, wherein The Microfinance Support Centre provides the capital to the client for investing in a commercial initiative, with the objective of sharing profit from the commercial entity. The client then undertakes the activities and management of the entity and the profit is shared between the partners in a predetermined quantum, while loss is borne by the investing partners. The investing partner will not interfere in the day-to-day management, but may specify certain conditions related to managing the capital. In other words, he may be referred to as a silent partner.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) **Financing Receivables (Continued)**

Musharaka financing

Musharaka financing are stated at the fair value of consideration given less impairment, if any. Musharaka financing are a form of capital partnership. Musharaka financing capital provided by the Company at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Company.

Profit or losses in respect of the Company's share in Musharaka financing transaction that commence and end during a single financial period is recognised in the statement of profit or loss at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

Istisna

Istisna is a sale transaction where a commodity is transacted for before it comes into existence. It is an order to manufacture a specific commodity for the purchaser. The manufacturer uses his own material to manufacture the required goods. In an Istisna, the price must be fixed with the consent of all parties involved. All other necessary

Impairment of financing assets

Islamic financing assets carried at amortised cost are evaluated for impairment at each reporting date. Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the risk management department. For the purposes of a collective evaluation of impairment, financing assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Company's grading process that considers asset type, collateral type, past-due status and other relevant factors). The methodology and assumptions used for the grading process and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In view of the management, the current level of provisioning is adequate and no additional impairment allowances are required on a collective basis.

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. Inventories comprise of stationery and office consumables.

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.

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.

Current tax

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

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Taxation (continued)

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.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recoverable entirely through sale unless presumption is rebutted. The presumption is rebutted when the investment property is depreciable and held within a business model whose objective is to consume substantially all its economic benefits embodied in it over time rather than through sale.

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.

The Company as 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 Company 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 Company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

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.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Accounting for leases (continued)

In cases where the right-of-use assets include a class of asset that is not present under property, plant and equipment, the entity must disclose the depreciation rates applicable to the assets classified under right-of-use Assets. The disclosure may be similar to the depreciation rate under the policy for property, plant and equipment.

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 retained earnings to revaluation surplus reserve.

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 July 2019. Note 1 (a) sets out the equivalent policy applied in the previous year and the impact of the change in accounting policy.

n) Retirement benefits

i) 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

ii) The Company runs a self managed defined gratuity scheme which is wholly contributed by the Company. Gratuity is provided for at 25% of basic salary for staff who were contracted before 1 April 2011 and at 5% for staff contracted after 31 March 2011. The board in August 2012 changed the 5% rate to 20% for all staff. Staff are eligible for gratuity on commencement of employment and are entitled to payment on the earliest of the

Grants and administered funds

Grants and administered funds relating to recurrent expenditure are recognised as income in the profit or loss on a systematic basis in the period that the expenses are incurred. Grants and administered funds relating to the disbursement of credit funds are shown as deferred income and recognized as equity on disbursement of the credit.

Grants are recognised in the profit or loss account, so that the income is matched with the costs to which they relate. This means that if a grant were received for costs already incurred or to give immediate financial support it should be recognised when receivable.

If the grant is claimed for specific future costs then it is carried forward to match with those costs. If there are conditions over the receipt of a grant then it is not to be recognised until those conditions have been met and receipt of the grant is reasonably certain.

If the grant is for acquisition of property and equipment, the grant is matched against the life of the asset. The grant is posted to deferred grant income (and not set against the cost of the asset) and then released to the profit or loss account over the life of the asset.

p) Comparatives

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

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