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SANLAM INCOME FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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Corporate Trustee	Standard Chartered Bank Uganda Limited Standard Chartered House Plot 5 Speke Road P O Box 7111 Kampala, Uganda
Registered Office	Sanlam Investments East Africa Limited Workers House Plot 1 Pilkington Road P O Box 9831 Kampala, Uganda
Fund Manager	Sanlam Investments East Africa Limited Workers House Plot 1 Pilkington Road P O Box 9831 Kampala, Uganda
Custodian	Standard Chartered Bank Uganda Limited Standard Chartered House Plot 5 Speke Road P O Box 7111 Kampala, Uganda
Independent Auditor	PricewaterhouseCoopers Certified Public Accountants Communications House 1 Colville Street P O Box 882 Kampala, Uganda

The Fund Manager has the pleasure in submitting the Sanlam Income Fund (the "Fund") report together with the audited financial statements for the year ended 31 December 2022.

The Fund is part of the Sanlam Umbrella Unit Trust Scheme which is governed by a Trust Deed dated 17 November 2020. The Fund was licenced by the Capital Markets Authority in Uganda on 15 October 2020 and commenced operations in the subsequent year. The Fund's licence was subsequently renewed on 31 October 2022.

INVESTMENT OBJECTIVES

The primary objective of the Fund is to seek capital preservation and an attractive level of current income. This is achieved by aiming to deliver a competitive rate of return relative to average commercial banks' fixed deposits. The Fund is a conservative investment portfolio consisting of treasury bills, treasury bonds, commercial papers, and fixed deposits.

In 2022, the Fund recorded a return of 13.6% as of 31 December 2022 (2021: 9.4%) against its benchmark of 8.6%. Despite the tight financial market environment, we managed to maintain a consistent and competitive return driven by allocation to government securities and fixed deposits.

CHANGES TO INCORPORATION DOCUMENTS

There were no changes made to the incorporation documents (Prospectus, Trust deed and Rules of the Fund) during the period.

FUND PERFORMANCE

The performance record of the Fund is as shown below:

a) Maximum and minimum yield

The highest and lowest absolute yields for the period were as per the table below:

	2022	2021
Highest yield (%)	13.26	12.05
Lowest yield (%)	10.42	6.14

b) Income distribution

The profit realised by the Fund for the year is Ushs 2,636,824,000 (2021: Ushs 342,871,000). This profit has been distributed to the unitholders.

c) Fund value

The total value of the Fund, number of units and unit price at the end of the period is as shown below:

	2022	2021
Total Fund value (Ushs)	49,964,949,000	9,891,174,000
Number of units in issue	49,964,949,000	9,891,174,000
Closing unit price (Ushs)	1.00	1.00

There has not been any amalgamation or reconstruction of the current units in the Fund that has had a material effect on the size of the Fund.

TERMS OF APPOINTMENT OF THE AUDITOR

PricewaterhouseCoopers Certified Public Accountants was appointed during the year and continues in office in accordance with Section 88 of the Collective Investment Schemes (Unit Trusts) Regulations, 2003.



Signed on behalf of the Fund Manager

21 March 2023

The Capital Markets Act requires the Fund Manager to prepare financial statements for each financial year that gives a true and fair view of the state of affairs of the Fund as at the end of the year and of the results of its operations. It also requires the Fund Manager to keep proper accounting records that disclose, with reasonable accuracy, the financial position of the Fund.

The Fund Manager accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies in conformity with International Financial Reporting Standards and in the manner required by the Collective Investment Schemes (Financial and Accounting) Regulations, 2003. The Fund Manager is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The Fund Manager further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement

Declaration statement

- The Fund is an approved Unit Trust within the meaning of the Capital Markets Authority Act;
- Unitholders are not liable for the debts of the Fund; and
- The Fund is an umbrella fund investing in income securities at attractive yields to ensure the return of the Fund is maximised.

Having made an assessment of the Fund's ability to continue as a going concern, the Fund Manager is not aware of any material uncertainties related to events or conditions that may cast doubt upon the Fund's ability to continue as a going concern.

Approved by the Directors of the Fund Manager on 21 March 2023 and signed on its behalf by:



Signed on behalf of the Fund Manager

21 March 2023

We, Standard Chartered Bank Uganda Limited, in our capacity as the Trustee of the Sanlam Income Fund, hereby confirm that as required in terms of section 121(1) and (2) of the Collective Investment Schemes (Unit Trusts) Regulations, 2003:

- a) to the best of our knowledge, Sanlam Investments East Africa Limited has managed the Fund in accordance with the limitations imposed on the investment and borrowing powers of the Fund Manager and Trustee by the Capital Markets Authority Act, the Collective Investment Schemes (Unit Trusts) Regulations, 2003 and the Trust Deed; and
- b) there are no deviations from any of the provisions of the Trust Deed and the above Regulations.

We confirm that as required by the Collective Investment Schemes (Unit Trusts) Regulations, 2003 Section 92 (2), we are satisfied that the Fund has maintained sufficient records, of which these financial statements are part.



Signed on behalf of the Trustee

21 March 2023

In accordance with the Collective Investment Schemes (Unit Trusts) Regulations 2003 (the Regulations) and the Custody Agreement between Standard Chartered Bank Uganda as the Custodian and Sanlam Investments East Africa Limited as the Fund Manager, we confirm:

- a) we have discharged the duties prescribed for a Custodian under the Regulations and the Fund Trust Deed;
- b) for the year ended 31 December 2022, we have held the assets for the Fund; including securities and income that accrue thereof, to the order of the Trustee and facilitated the transfer, exchange or delivery in accordance with the instructions received from the Fund Manager.



Signed on behalf of the Custodian

21 March 2023



INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF SANLAM INCOME FUND

Report on the financial statements

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Sanlam Income Fund ("the Fund") as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and have been prepared in the manner required by the Collective Investment Schemes (Financial and Accounting) Regulations, 2003.

What we have audited

The financial statements of Sanlam Income Fund comprise:

- the statement of financial position as at 31 December 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in unitholders' balances for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("the IESBA Code") together with the ethical requirements that are relevant to our audit of financial statements in Uganda, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

Key audit matters

We have determined that there are no key audit matters to communicate in our report.

Other information

The Fund Manager is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditor's report thereon.

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

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Partners: C Mpobusingye D Kalemba P Natamba U Mayanja

PricewaterhouseCoopers CPA is regulated by the Institute of Certified Public Accountants of Uganda (ICPAU), ICPAU No. AF0004



INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF SANLAM INCOME FUND (CONTINUED)

Report on the audit of the financial statements (continued)

Other information (continued)

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

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

Responsibilities of the Fund Manager for the financial statements

The Fund Manager is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Collective Investment Schemes (Financial and Accounting) Regulations, 2003, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Fund Manager responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF SANLAM INCOME FUND (CONTINUED)

Report on the audit of the financial statements (continued)

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

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

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

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

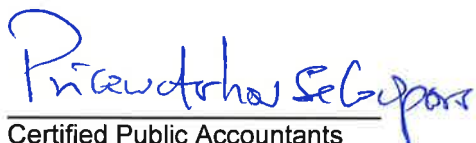
From the matters communicated with the Fund Manager, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public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

Report on other legal and regulatory requirements

The Collective Investment Schemes (Financial and Accounting) Regulations, 2003 require that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit; and
- ii) in our opinion, proper books of account have been kept by the Fund Manager, so far as appears from our examination of those books and are in agreement with the Fund Manager's accounting records for the Fund.

The engagement leader on the audit resulting in this independent auditor's report is CPA Clive Mayombwe- P0349.


Certified Public Accountants

Kampala
29 March 2023


CPA Clive Mayombwe

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2022 Ushs'000	2021 Ushs'000
Investment income	5	3,278,121	463,901
Amortised premium on bonds	8 (ii)	(197,939)	(38,477)
Total income		3,080,182	425,424
Operating expenses	6	(429,430)	(66,164)
Impairment losses on financial assets	8 (ii)	(13,928)	(16,389)
Profit before income tax		2,636,824	342,871
Income tax expense	7	-	-
Profit for the year/ period		2,636,824	342,871
Other comprehensive income		-	-
Total comprehensive income for the year/ period		2,636,824	342,871

STATEMENT OF FINANCIAL POSITION

	Notes	2022 Ushs'000	2021 Ushs'000
ASSETS			
Deposits with financial institutions	8	14,753,829	1,388,818
Government securities	8	33,283,243	8,192,069
Corporate bonds	8	2,029,746	396,363
Bank balances	9	29,216	21,321
Total assets		50,096,034	9,998,571
Liabilities			
Current liabilities			
Accrued expenses	11	70,597	24,245
Distribution payable		60,488	83,152
Liabilities (excluding unitholders' balances)		131,085	107,397
Unitholders' balances	10	49,964,949	9,891,174
Total liabilities		50,096,034	9,998,571

The financial statements on pages 10 to 24 were approved for issue by the Fund Manager on 21 March 2023 and signed on its behalf by:



Signed on behalf of the Fund Manager

MUBALE KABANDAMWA MUGALYA
 Name

STATEMENT OF CHANGES IN UNITHOLDERS' BALANCES

	Notes	2022 Ushs'000	2021 Ushs'000
At start of year/ period		9,891,174	-
Gross interest distributed to unitholders		2,636,824	342,871
Withholding tax on distributed interest		(375,965)	(70,700)
<i>Transactions with unitholders:</i>			
Additional units purchased	10	43,342,316	10,425,393
Units liquidated	10	(5,529,400)	(806,390)
Net transactions with unitholders		37,812,916	9,619,003
At end of year/ period	10	49,964,949	9,891,174

STATEMENT OF CASH FLOWS

	Notes	2022 Ushs'000	2021 Ushs'000
Cash flows from operating activities			
Profit before income tax		2,636,824	342,871
<i>Adjustments for:</i>			
- Allowance for ECL	8(ii)	13,928	16,389
- Accrued interest	8(ii)	(916,881)	(282,879)
- Amortised premium on bonds	8(ii)	197,939	38,477
<i>Changes in working capital:</i>			
- Accrued expenses		46,352	24,245
- Distribution payable		(22,664)	83,152
		1,955,498	222,255
Cash flows from operations		1,955,498	222,255
Purchase of financial assets		(81,609,630)	(15,980,237)
Proceeds from sale/ maturity of financial assets		44,712,045	6,331,000
		(34,942,087)	(9,426,982)
Net cash used in operating activities			
Cash flows from financing activities			
Net contribution from unitholders	10	43,342,316	10,425,393
Liquidations by unitholders	10	(5,529,400)	(806,390)
Withholding tax on interest distributed		(375,965)	(70,700)
		37,436,951	9,548,303
Net cash generated from financing activities			
		2,494,864	121,321
Net increase in cash and cash equivalents			
Cash and cash equivalents at start of year/ period		121,321	-
		2,616,185	121,321
Cash and cash equivalents at end of year/ period			
	9	2,616,185	121,321

Notes

1 General information

The Fund started operations on 11 March 2021 and is governed by a Trust Deed dated 17 November 2020, is registered with the Capital Markets Authority and is domiciled in Uganda. The address of its registered office is:

Sanlam Investments East Africa Limited
7th Floor Workers House, 1 Pilkington Road
P O Box 9831
Kampala Uganda

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

2 Summary of significant accounting policies

(a) Basis of preparation

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

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

Changes in accounting policy and disclosures

(i) *New and amended standards adopted by the Fund*

Annual improvements cycle 2018 -2020

IFRS 9, '*Financial Instruments*' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

Amendments to IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*' on Onerous Contracts—Cost of Fulfilling a Contract

The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.

The amendments above had no material impact on the financial statements of the Fund.

Notes (continued)

2 Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(ii) New and amended standards not yet adopted by the Fund

Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current (published in January 2020 and effective on or after 1 January 2023)

The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. A number of requirements are required to be met in conjunction with this amendment.

Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (published in February 2021 and effective for annual periods beginning on or after 1 January 2023)

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.

The Trustee is of the view that the above amendments will not have any material impact on the financial statements of the Fund.

(b) Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset net the carrying amount on initial recognition.

(c) Income tax

The Fund is tax exempt and only it withholds and pays to Uganda Revenue Authority applicable tax on interest distributed to the unitholders.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand and short-term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

(e) Financial instruments

Financial assets

(i) Classification and impairment of financial assets

The Fund classifies its financial assets into the following measurement categories;

- those measured subsequently at fair value through profit or loss (FVTPL); and
- those measured at amortised cost.

(ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the fund commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the fund has transferred substantially all risks and rewards of ownership.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(iii) Measurement

At initial recognition, the fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depends on:

- (i) the Fund's business model for managing the financial assets; and
- (ii) the cash flow characteristics of the asset.

(iv) Impairment

The Fund assesses on a forward-looking basis the expected credit loss associated with its financial instruments carried at amortised cost and debt instruments at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to the following financial instruments that are not measured at FVTPL or FVTOCI:

- Corporate bonds and commercial papers;
- Deposits with financial institutions; and
- Cash and bank balances.

No impairment loss is recognised on financial assets measured at FVPL.

The Fund recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Fund will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Financial instruments that are determined to have low credit risk at the reporting date. The fund will consider a financial instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- Other financial instruments for which credit risk has not increased significantly since initial recognition.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(iv) Impairment (continued)

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the fund expects to receive; and
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset.

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

$$\text{ECL} = \text{PD} \times \text{LGD} \times \text{EAD}$$

In applying the IFRS 9 impairment requirements, the Fund follows one general approach.

Under the general approach, at each reporting date, the Fund determines whether the financial asset is in one of the three stages below, to determine both the amount of ECL to recognize as well as how interest income should be recognized.

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Fund will recognize 12-month ECL and recognize interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.
- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Fund will recognize lifetime ECL but interest income will continue to be recognized on a gross basis.
- **Stage 3** - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Fund will continue to recognize lifetime ECL but they will now recognize interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

The key inputs into the measurement of ECL are the term structures of the following variables:

- Probability of Default (PD)
- Loss given default (LGD) and
- Exposure at default (EAD)

To determine lifetime and 12-month PDs, the Fund uses internally developed PD tables based on the default history of obligors with the same credit rating. The fund adopts the same approach for unrated investments by mapping them to the equivalent external credit ratings.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(iv) Impairment (continued)

Expected credit losses (continued)

LGD is the magnitude of the likely loss if there is a default. The fund estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The fund derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the fund measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the fund considers a longer period. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include: instrument type; credit risk gradings; collateral type; date of initial recognition; remaining term to maturity; industry; and geographic location of the borrower.

Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as Payables and other accruals if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-Payables and other accruals. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(f) Functional and presentational currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'Functional Currency'). The financial statements are presented in 'Uganda Shillings (Ushs) rounded to the nearest thousand, which is the Fund's presentation currency.

Transactional balances

Foreign currency transactions are translated into the Functional Currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Functional and presentational currency (continued)

Transactional balances (continued)

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

(g) Distribution

All income or loss arising from investment is distributed to unitholders after provision of all expenses. All distributions including unclaimed distributions are reinvested in the unitholders' accounts.

(h) Unitholders' balances

Unitholders' funds are redeemable on demand at an amount equal to a proportionate share of the unit portfolios net asset value. The balances are carried at the redemption amount that is payable at the financial reporting date if the holder exercised their right to redeem the balances.

3 Critical judgement in applying the fund's accounting policies

In the process of applying the Fund's accounting policies, management has made estimates and judgements in valuation of financial instruments as discussed in note 2(e). Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

4 Financial risk management objectives and policies

The Fund generates revenues for the members by investing in various income generating activities which involve trading in the commercial paper. These activities expose the Fund to a variety of financial risks, including credit risk and the effects of changes in market dynamics. The Trust Deed sets out the investment policy and management of the Fund's assets to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Fund Manager, Sanlam Investments East Africa Limited. The fund manager identifies, evaluates and manages financial risks, with emphasis on specific areas such as interest rate risk, credit risk and investing excess liquidity.

The fund's risk management policies include the use of guidelines governing the acceptance of clients and investment policies are in place which help manage liquidity and seek to maximise return within an acceptable level of interest rate risk.

a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Fund. In accordance with the funds' policy, the fund manager monitors the funds' credit position on a daily basis, and it is reviewed on a quarterly basis by the Fund's Investments Committee.

Notes (continued)

4 Financial risk management objectives and policies (continued)

a) Credit risk (continued)

The amount that best represents the fund's maximum exposure to credit risk at 31 December 2022 is made up as follows:

	2022 Ushs'000	2021 Ushs'000
Bank balances	29,216	21,321
Deposits with financial institutions	14,753,829	1,388,818
Government securities	33,283,243	8,192,069
Corporate bonds	2,029,746	396,363
	50,096,034	9,998,571

b) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or at the risk of damaging the Fund's reputation.

The Fund is exposed to daily withdrawal of funds by investors. The Fund maintains cash balances to meet all of these needs as experience shows that a certain amount of withdrawals are requested daily and can be predicted with a high level of certainty. Management closely monitors the proportion of maturing funds available to meet such calls and on the minimum level of funds that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses the Fund's financial liabilities and unitholder balances that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Due on demand Ushs'000	Due within 3 months Ushs'000	Total Ushs'000
At December 2022			
Unitholders' balances	49,964,949	-	49,964,949
Accrued expenses	-	70,597	70,597
Distribution payable	60,488	-	60,488
Total	50,025,437	70,597	50,096,034
At December 2021			
Unitholders' balances	9,891,174	-	9,891,174
Accrued expenses	-	24,245	24,245
Distribution payable	83,152	-	83,152
Total	9,974,326	24,245	9,998,571

Notes (continued)

4 Financial risk management objectives and policies (continued)

c) Market risk

(i) Cash flow and fair value interest rate risk

The Fund's interest-bearing financial assets are commercial paper, government securities, corporate bonds and deposits with financial institutions, which are at fixed rate, and on which it is therefore not exposed to cash flow and interest rate risk.

The Fund Manager regularly monitors financing options available to ensure optimum interest rates are obtained.

(ii) Foreign exchange risk

The Fund had no exposure to foreign exchange risk at 31 December 2022 (2021: nil).

(ii) Price risk

The Fund invests in financial instruments (deposits with financial institutions, corporate bonds and government securities) that are measured at amortised cost. The amortised cost of the debt instruments is considered equal to the fair value of the assets. Therefore, the Fund is not exposed to price risk.

d) Fair value estimation

For the Fund, all investments are measured at amortised cost.

e) Capital management

The capital of the Fund is represented by unitholders' balances. The amount of unitholder liabilities can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unitholders.

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders.

5 Interest income

Interest income from:	2022 Ushs'000	2021 Ushs'000
Fixed deposits with financial institutions	420,040	30,813
Corporate bonds	142,861	24,760
Government securities	2,715,220	408,328
	3,278,121	463,901

6 Operating expenses

Custodial and bank fees	36,818	6,022
Management fees [note 12(b)]	352,500	54,031
Trustee fees	40,112	6,111
	429,430	66,164

Notes (continued)

7 Taxation

The Fund is registered as a Collective Investment Scheme under the Capital Markets Authority Act and is exempt from income tax as per the Income Tax Act – Exempt schedule 21(l)(t) subject to meeting the requirements to distribute income to the unitholders.

8 Investments

(i) Maturity profile of investments

	Up to 3 months Ushs'000	6 to 12 months Ushs'000	Due within 1 to 5 years Ushs'000	Due after 5 Years Ushs'000	Allowance For ECL Ushs'000	Total Ushs'000
At 31 December 2022						
Deposits with financial institutions	2,586,969	12,195,551	-	-	(28,691)	14,753,829
Government securities	-	8,150,597	7,602,567	17,530,079	-	33,283,243
Corporate bonds	205,385	1,825,986	-	-	(1,625)	2,029,746
Total assets	2,792,354	22,172,134	7,602,567	17,530,079	(30,316)	50,066,818

At 31 December 2021

Deposits with financial institutions	258,333	1,131,602	-	-	(1,117)	1,388,818
Government securities	98,012	231,632	1,838,226	6,024,199	-	8,192,069
Corporate bonds	-	411,635	-	-	(15,272)	396,363
Total assets	356,345	1,774,869	1,838,226	6,024,199	(16,389)	9,977,250

(ii) Movement in investments

	Carrying value at start of year Shs'000	Purchases at cost Shs'000	Accrued interest Shs'000	Amortised premium on bonds Shs'000	Sales/ maturities Shs'000	Increase in allowance for ECL Shs'000	Carrying value at end of year Shs'000
Year ended 31 December 2022							
Deposits with financial institutions	1,388,818	57,415,000	77,585	-	(44,100,000)	(27,574)	14,753,829
Government securities	8,192,069	24,781,599	819,559	(197,939)	(312,045)	-	33,283,243
Corporate bonds	396,363	2,000,000	19,737	-	(400,000)	13,646	2,029,746
Total	9,977,250	84,196,599	916,881	(197,939)	(44,812,045)	(13,928)	50,066,818

Notes (continued)

8 Investments (continued)

(ii) Movement in investments (continued)

	Carrying value at start of period Shs'000	Purchases at cost Shs'000	Accrued interest Shs'000	Amortised premium on bonds Shs'000	Sales/ maturities Shs'000	Allowance for ECL Shs'000	Carrying value at end of period Shs'000
Period ended 31 December 2021							
Deposits with financial institutions	-	7,701,000	19,935	-	(6,331,000)	(1,117)	1,388,818
Government securities	-	7,979,237	251,309	(38,477)	-	-	8,192,069
Corporate bonds	-	400,000	11,635	-	-	(15,272)	396,363
Total	-	16,080,237	282,879	(38,477)	(6,331,000)	(16,389)	9,977,250

9 Cash and cash equivalents

For the purpose of the statement of cashflows, cash and cash equivalents comprise of the following:

	2022 Ushs'000	2021 Ushs'000
Bank balances	29,216	21,321
Deposits with financial institutions (maturing within 3 months)	2,586,969	100,000
	2,616,185	121,321

10 Unitholders' balances

	Number of Units '000	Value Ushs'000
Year ended 31 December 2022		
At start of year	9,891,174	9,891,174
Creations	43,342,316	43,342,316
Liquidations	(5,529,400)	(5,529,400)
Total comprehensive income for the year	2,636,824	2,636,824
Withholding tax on interest distributed	(375,965)	(375,965)
At end of year	49,964,949	49,964,949

Notes (continued)

10 Unitholders' balances (continued)

	Number of Units '000	Value Ushs'000
Period ended 31 December 2021		
At start of period	-	-
Creations	10,425,393	10,425,393
Liquidations	(806,390)	(806,390)
Total comprehensive income for the period	342,871	342,871
Withholding tax on interest distributed	(70,700)	(70,700)
	<u>9,891,174</u>	<u>9,891,174</u>
At end of period	9,891,174	9,891,174

11 Accrued expenses

	2022 Ushs'000	2021 Ushs'000
Management fees	58,003	12,571
Custodial fees	6,035	5,564
Trustee fees	6,559	6,110
	<u>70,597</u>	<u>24,245</u>

12 Related party transactions

Sanlam Income Fund is managed by Sanlam Investments East Africa Limited. Sanlam Investments East Africa Limited is controlled by Sanlam Emerging Market Pty Ltd incorporated in South Africa whose ultimate beneficial owner is Sanlam Ltd, incorporated in South Africa. There are other companies that are related to Sanlam Investments East Africa Limited through common shareholdings or common directorships.

During the year, the following transactions were carried out with related parties.

a) Unitholder's balances

	2022 Ushs'000	2021 Ushs'000
Sanlam Investments East Africa Limited	3,660,422	2,613,650
	<u>3,660,422</u>	<u>2,613,650</u>

b) Management fees

The below amounts relate to the management fees paid.

	2022 Ushs'000	2021 Ushs'000
Sanlam Investments East Africa Limited	352,500	54,031
	<u>352,500</u>	<u>54,031</u>

