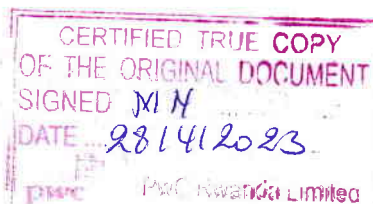


BRAC RWANDA MICROFINANCE COMPANY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2022



BRAC RWANDA MICROFINANCE COMPANY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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BRAC RWANDA MICROFINANCE COMPANY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

CORPORATE INFORMATION

DIRECTORS

Mr. Shameran Bahar Abed***	Chair	Appointed in August 2021
Mr. Johannes Maria Antonius Eskes****	Director	Appointed in January 2019
Ms. Angelina Muganza*	Independent Director	Appointed in May 2019
Ms. Anne Abakunzi*	Independent Director	Appointed in November 2019
Ms. Bridget Dougherty*****	Director	Appointed in August 2021
Mr. Silant Clement Gonondo*****	Ex-officio & CEO	Appointed in May 2020
Mr. Syed Abdul Muntakim***	Director	Resigned in August 2022

*Rwandan **Bangladeshi ***British ****Dutch *****Zimbabwean *****USA

REGISTERED OFFICE

BRAC Rwanda Microfinance Company PLC
P O Box-6500, KG385 Street, House 360, Kagugu,
Gasabo Kigali City, Rwanda.

PRINCIPAL BANKERS

Equity Bank (Rwanda) Plc
P.O Box 494
Kigali, Rwanda.

INDEPENDENT AUDITOR

PricewaterhouseCoopers Rwanda Limited
5th Floor, Blue Star House, 35 KG 7 Ave, Kacyiru
PO Box 1495 Kigali, Rwanda



BRAC RWANDA MICROFINANCE COMPANY PLC
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2022, which disclose the state of affairs of BRAC Rwanda Microfinance Company PLC ("the Company").

1. INCORPORATION

BRAC Rwanda Microfinance Company PLC is domiciled in Rwanda where it is incorporated as a company limited by shares under the law n° 007/2021 of 05/02/2021 governing companies in Rwanda. The address of the registered office is set out on page 1.

2. PRINCIPAL ACTIVITIES

BRAC Rwanda Microfinance Company PLC was registered in September 2018 and its principal activity is to provide a range of financial services responsibly to people at the bottom of the pyramid.

3. RESULTS

	2022	2021
	Frw	Frw
Loss before income tax	(2,552,706,256)	(1,604,240,263)
Income tax expense	-	-
Loss after income tax	(2,552,706,256)	(1,604,240,263)
Other comprehensive income	-	-
Total comprehensive loss	(2,552,706,256)	(1,604,240,263)

4. DIVIDENDS

The Directors do not recommend payment of dividends for the year ended 31 December 2022 (31 December 2021: Nil).

5. RESERVES

The reserves of the Company are set out on page 11.

6. DIRECTORS

The Directors who served during the year and to the date of this report are as shown on page 1.

7. AUDITOR

The auditors, PricewaterhouseCoopers Rwanda Limited have expressed willingness to continue in office as per the law n° No. 007/2021 of 05/02/2021 governing companies in Rwanda.

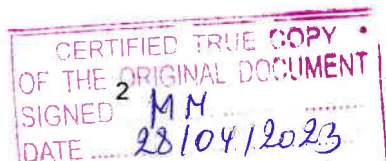
The Directors have the power to amend and re issue these financial statements

By order of the Board



Director

28 April 2023



BRAC RWANDA MICROFINANCE COMPANY PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2022

The Company's Directors are responsible for the preparation of financial statements that give a true and fair view of BRAC Rwanda Microfinance Company PLC as set out on pages 9 to 59 which comprise the statement of financial position as at 31 December 2022, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards (IFRSs) and in a manner required by Law No. 007/2021 of 05/02/2021 governing companies in Rwanda.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with Financial Reporting Standards and in the manner required by Law No. 007/2021 of 05/02/2021 governing companies in Rwanda. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and its operating results.

The Directors have made an assessment of the ability of the Company to continue as a going concern based on the continued investments by shareholders into the Company which has seen the branch network grow from 25 to 35 over the last three years. Additional capital received in the year was Frw 2,718,530,000 and there is commitment for a further Frw 2,569,708,800 which will not only enable the Company meet its obligations but also continue with its growth plan where 5 more branches are expected in 2023 and a breakeven is expected in the next two years. The Company has also been able to secure Frw 957,270,389 of grants and Frw 3,708,356,694 of borrowing which will be utilised in the course of the year. Based on these, the Directors are of the view that the business will remain a going concern in the years ahead. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

The independent auditors are responsible for expressing an opinion on whether the financial statements give a true and fair view of the company's financial position and performance as at and for the year ended 31 December 2022.

Approval of the financial statements

The financial statements of BRAC Rwanda Microfinance Company PLC, as identified in the first paragraph, were approved and authorized for issue by the Board of Directors on 28 April 2023 and were signed on its behalf by:



Chief Executive Officer



Director



Director





REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDER OF BRAC RWANDA MICROFINANCE COMPANY PLC

Report on the audit of the financial statements

Our opinion

In our opinion, BRAC Rwanda Microfinance Company Plc (the "Company") financial statements give a true and fair view of the financial position of the Company 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 and the requirements of Law No. 007/2021 of 05/02/2021 Governing Companies.

What we have audited

The Company's financial statements as set out in pages 9 to 59 comprise:

- the statement of financial position as at 31 December 2022;
- the statements of comprehensive income;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA code.

Key audit matters

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





**REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDER OF BRAC RWANDA
MICROFINANCE COMPANY PLC**

Key audit matters (continued)

**Expected credit losses on loans and advances
at amortised cost**

**How key audit matter was addressed in
the audit**

Loans and advances to customers comprise a significant portion of the Company's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL.

Changes to the assumptions and estimates used by management could generate significant fluctuations in the Company financial results and materially impact the valuation of the portfolio of loans and advances.

The policies for estimating ECL are explained in note 5 of the financial statements.

The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include:

- the judgments made to determine the categorisation (staging) of individual loan and advances accounts in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used;
- the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments of loans and advances and
- the appropriateness of forward-looking information used in the model;
- the conceptual logic, soundness and accuracy of the expected credit losses models used by the Company
- the relevance of forward-looking information used in the models; and
- Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.

Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included:

- We evaluated the Company methodology for determining ECL and evaluated this against the requirements of IFRS 9;
- We tested the staging of facilities by checking how the company extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and compared these to the DPD as per the Bank's IT system and the respective customer files;
- Obtained an understanding of the basis used to determine the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD);
- For LGD, we tested the assumptions on the timing of the cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to mandatory savings;
- We tested the completeness and accuracy of the historical data used in derivation of PDs, LGDs and EADs, and re-calculated the outcomes on a sample basis.
- We tested, on a sample basis, the reasonableness of EAD for balance sheet exposures;
- For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information;
- We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.





REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDER OF BRAC RWANDA MICROFINANCE COMPANY PLC

Other information

Directors are responsible for the other information. The other information comprises the Corporate Information, report of the directors, Statement of directors' responsibilities, which we obtained prior to the date of this auditor's report, and the other information that will be included in the annual report which is expected to be made available to us after that date, 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information that will be included in the annual report, if we conclude that there is material misstatement there in, we are required to communicate the matter to the directors.

Responsibilities of the directors for the financial statements

Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of Law No. 007/2021 of 05/02/2021 Governing Companies, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

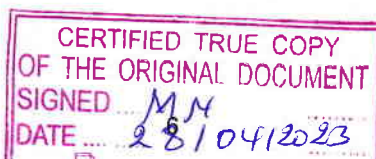
In preparing the financial statements, directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or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

Directors are also responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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





**REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDER OF BRAC RWANDA
MICROFINANCE COMPANY PLC**

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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





**REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDER OF BRAC RWANDA
MICROFINANCE COMPANY PLC**

Report on other legal and regulatory requirements

Law No. 007/2021 of 05/02/2021 Governing Companies requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- i. We We have no relationship, interest or debt with the Company. As indicated in our report on the financial statements, we have complied with the required ethical requirements. These are the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) which includes comprehensive independence and other requirements;
- ii. In 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;
- iii. In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- iv. We have communicated to the Company's Board of Directors, through a separate management letter, internal control matters identified in the course of our audit including our recommendations in relation to those matters.
- v. According to the best of the information and the explanations given to us as auditors, as shown by the accounting and other documents of the Company, the annual accounts comply with Article 125 of Law No. 007/2021 of 05/02/2021 Governing Companies.

For PricewaterhouseCoopers Rwanda Limited, Kigali,


Moses Nyabanda
Director

28 April 2023



BRAC RWANDA MICROFINANCE COMPANY PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 Frw	2021 Frw
Interest income on loans	19	1,271,234,630	678,507,797
Interest & other financial expenses	20	(432,116,795)	(64,143,312)
Net interest income		839,117,835	614,364,485
Membership and other fees	21	41,206,500	34,137,000
Net foreign exchange (loss)/income	23	52,076,667	42,278,188
Other income	22	277,633	303,450
Grant income	24	773,859,314	220,079,730
		867,420,114	296,798,368
Total operating income		1,706,537,949	911,162,853
Expected credit losses	25	(180,094,713)	(60,567,110)
Operating income after impairment losses		1,526,443,236	850,595,743
Employee benefits	26	(1,797,592,804)	(1,214,926,199)
Other operating expenses	27	(1,964,490,036)	(1,041,245,274)
Depreciation & amortization	28	(317,066,652)	(198,664,533)
Total operating cost		(4,079,149,492)	(2,454,836,006)
Loss before income tax		(2,552,706,256)	(1,604,240,263)
Income tax expense	34	-	-
Loss for the year		(2,552,706,256)	(1,604,240,263)
Other comprehensive income		-	-
Total comprehensive income		(2,552,706,256)	(1,604,240,263)

The notes on pages 13 to 59 are an integral part of these financial statements.





BRAC RWANDA MICROFINANCE COMPANY PLC
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 Frw	2021 Frw
Assets			
Cash and cash equivalents	11	3,599,941,645	803,214,280
Loans to customers	9	3,289,874,822	2,372,547,286
Other assets	10	86,285,152	5,154,260
Derivatives at fair value through profit or loss	32	146,206,506	-
Intangible assets	8	170,788,813	32,074,257
Property & equipment	7	415,473,917	211,117,994
Right of use asset	31(a)	299,105,642	371,668,785
Total Assets		8,007,676,497	3,795,776,862
Equity and Liabilities			
Equity			
Share capital	12	4,693,540,000	3,281,460,000
Other capital contribution	13	2,718,530,000	1,412,080,000
Accumulated losses	14	(5,966,235,835)	(3,413,529,579)
Total Equity		1,445,834,165	1,280,010,421
Liabilities			
Term loan	18	3,855,236,678	405,894,904
Member savings	15	1,414,599,842	954,695,597
Related party payables	30	94,011,725	235,525,162
Other liabilities	16	442,619,979	287,909,939
Donor grants	17	485,629,389	302,218,314
Lease liability	31(b)	269,744,719	329,522,525
Total Liabilities		6,561,842,332	2,515,766,441
Total Liabilities and Equity		8,007,676,497	3,795,776,862

The notes on pages 13 to 59 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 28 April 2023 and signed on its behalf by:


 Head of Finance

 Director


 Chief Executive Officer

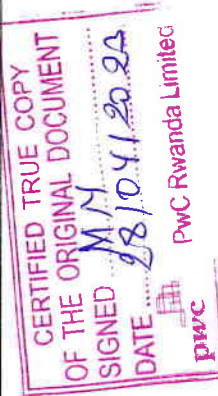
 Director



RWANDA MICROFINANCE COMPANY PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

ended 31 December 2021	Notes	Share capital	Capital awaiting allocation	Accumulated losses	Total capital Equity
		Frw	Frw	Frw	Frw
January 2021	12	1,400,600,000	1,880,864,637	(1,809,289,316)	1,472,175,321
Transactions with owners					
comprehensive income for the year		-	(468,784,637)	-	1,412,075,363
ended 31 December 2021		3,281,460,000	1,412,080,000	(3,413,529,579)	1,280,010,421
ended 31 December 2022					
January 2022	12	3,281,460,000	1,412,080,000	(3,413,529,579)	1,280,010,421
Transaction with owners					
Allocation additions			2,718,530,000	-	2,718,530,000
Contribution converted		1,412,080,000	(1,412,080,000)	-	-
Transactions with owners		4,693,540,000	2,718,530,000	-	3,998,540,421
comprehensive income for the year		-	-	(2,552,706,256)	(2,552,706,256)
ended 31 December 2022		4,693,540,000	2,718,530,000	(5,966,235,835)	1,445,834,165

Notes on pages 13 to 59 are an integral part of these financial statements.

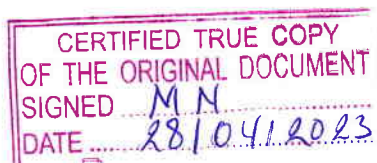


BRAC RWANDA MICROFINANCE COMPANY PLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 Frw	2021 Frw
Cash flow from operating activities			
Cash generated from operations	29	(2,723,792,615)	(1,919,217,171)
Net cash used in activities		(2,723,792,615)	(1,919,217,171)
Cash flow from investing activities			
Acquisition of property & equipment	7	(335,926,172)	(72,671,348)
Acquisition of intangible asset	8	(194,263,423)	(10,192,002)
ROU (right of use) asset	31(a)	(57,384,393)	(495,009,013)
Net cash used in investing activities		(587,573,988)	(577,872,363)
Cash flow from financing activities			
Term loan receipt		3,449,341,774	414,736,684
Proceeds from Share capital	12	1,412,080,000	1,880,860,000
Lease Liability	31(b)	(59,777,806)	329,522,525
Other capital contribution/ receipt/(payment)		1,306,450,000	(468,784,637)
Net cash from financing activities		6,108,093,968	2,156,334,572
Net increase in cash and cash equivalents		2,796,727,365	(340,754,962)
Cash and cash equivalents at beginning of the year		803,214,280	1,143,969,242
Effect of exchange rates on cash and cash equivalents held			
Cash and cash equivalents at end of the year	11	3,599,941,645	803,214,280

*The adjustments to property and equipment relate to write offs done during the year for old and unusable assets

The notes on pages 13 to 59 are an integral part of these financial statements.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022(CONTINUED)

1 Reporting Entity

BRAC Rwanda Microfinance Company PLC was registered in September 2018 and its principal activity is to provide a range of financial services responsibly to people at the bottom of the pyramid.

2 Basis of Preparation

a) Basis of measurement

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except for fair value through other comprehensive income investments and loan note at fair value through profit or loss which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company 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 4

b) Comparative information

The comparative information used in this report are audited financial statements of BRAC Rwanda Microfinance Company PLC for the financial year ended 31 December 2022.

3 Statement of compliance

The financial statements have been prepared in accordance with IFRSs and in the manner required by Law No007/2021 of 05/02/2021 governing companies in Rwanda.

4 Significant accounting policies

(a) Changes in accounting policies and disclosures

i) New and amended standards effective 1 January 2022

The key new and amended standards and interpretations that have become effective as at the time of incorporation and for the period preceded has had an effect on the Company's financial statement

Number	Effective date	Executive summary
Annual improvements cycle 2018 - 2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)	<p>These amendments include minor changes to:</p> <ul style="list-style-type: none"> IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS. 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.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022(CONTINUED)

4 Significant accounting policies (continued)

(a) Changes in accounting policies and disclosures (continued)

i) New and amended standards effective 1 January 2022 (continued)

Number	Effective date	Executive summary
		<ul style="list-style-type: none"> IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives. <p>IAS 41, 'Agriculture' has been amended to align the requirements for measuring fair value with those of IFRS 13. The amendment removes the requirement for entities to exclude cash flows for taxation when measuring fair value.</p>
Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)	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.
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.
Amendment to IFRS 3, 'Business combinations' Asset or liability in a business combination clarity	Annual periods beginning on or after 1 January 2022 (Published May 2020)	<p>The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination.</p> <p>In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework.</p> <p>The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date</p>



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022(CONTINUED)

4 Significant accounting policies (continued)

(a) Changes in accounting policies and disclosures (continued)

ii) New and amended standards issued but not yet effective

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	<p>Annual periods beginning on or after 1 January 2023</p> <p>Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17.</p> <p>(Published May 2017)</p>	<p>The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.</p> <p>Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.</p> <p>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.</p>
IFRS 17, Insurance contracts Amendments	<p>Annual periods beginning on or after 1 January 2023</p> <p>(Published June 2020)</p>	<p>In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.</p>



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022(CONTINUED)

4 Significant accounting policies (continued)

(a) Changes in accounting policies and disclosures (continued)

ii) New and amended standards issued but not yet effective (continued)

Amendment to IAS 1, 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2023 (Published Jan 2020)	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'	Annual periods beginning on or after 1 January 2023. Earlier application is permitted. (Published February 2021)	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.

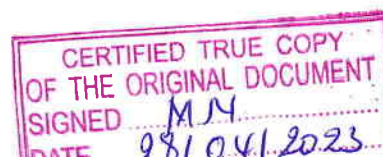
(b) Interest income and Interest expenses

Interest income and expenses for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period. The effective interest rate(EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition. The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities.

For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses(ECLs)).

The Company earns fees and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022(CONTINUED)

4 Significant accounting policies (continued)

(b) Interest income and Interest expenses (continued)

- Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight-line basis.
- Fees income from providing transaction services. Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(c) Employee benefits and other operating expenses

Retirement benefit costs

The Company and all its employees contribute to the national social security scheme in Rwanda, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Company's contributions to the defined contribution schemes are charged to the statement of comprehensive income in the year in which they fall due.

Other entitlements

The estimated monetary liability for employees accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

(d) Other income

This includes miscellaneous income such as amounts charged for tenders and fees on account closing not classified as part of the main revenue items. Other income is recorded in the period it is earned

(e) Financial instruments

Financial assets are assets that are:

- Cash and cash equivalents
- Loans to customers
- Other assets other than prepayments and statutory receivables

Financial liabilities are all liabilities that are:

- Term loans
- Member savings
- Related party payables
- Other liabilities



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022(CONTINUED)

4 Significant accounting policies (continued)

(e) Financial instruments (continued)

Recognition of a financial instrument

The company recognises a financial instrument (financial asset, financial liability or equity instrument) when it becomes party to the contractual provisions of the instrument. This includes granting a loan to a customer. It does not include transactions that we have planned but not committed to. Here we have not become party to a contract requiring the future receipt or delivery of financial assets

Initial classification and measurement of financial assets

On initial recognition, financial assets are classified into one of three measurement categories. This drives the subsequent accounting:

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

Currently all financial assets are carried at amortized costs.

Financial assets are initially measured at fair value. Directly attributable transaction costs are treated as follows:

- Added to the amount of initially recognized, for assets classified at amortized cost and FVOCI
- Immediately recognized in the P&L, for assets classified at FVTPL

Key judgements considered when classifying financial debt instruments (loans to customers, trade and other receivables),

The business models

To be able to classify financial assets, the company needs to identify the objective of the business model in which the asset is held. This could be:

- Held-to-collect – typically involving the lowest level of sales (in frequency and volume) compared to other business models.
- Both held to collect and for sale – typically involving more sales (in frequency and volume) than the held-to-collect business model.
- Other business models – if the collection of contractual cash flows is incidental to the objective of the model.

The business model is determined at a level that reflects the way you manage groups of financial assets together to achieve a particular business objective. It does not depend on your intentions for an individual instrument. The business model is typically observable through particular activities that you undertake to achieve the objectives of the business model.

Testing the SPPI (Solely Payments of Principal and Interest) criteria determining whether the asset's contractual cash flows are solely principal and interest (the SPPI criterion) will be a matter of significant judgement. The company will consider:

- Contractual provisions that change contractual cash flows – e.g. variable interest rates, prepayment features and term extension features;

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022(CONTINUED)

4 Significant accounting policies (continued)

(e) Financial instruments (continued)

Initial classification and measurement of financial assets (continued)

The business models (continued)

- De minimis or non-genuine features – features that will only have a de minimis effect on cash flows, or that are unlikely to occur;
- Non-recourse and limited recourse assets – contractual cash flows described as principal and interest but that do not represent payment of principal and interest on the principal amount outstanding; or

Contractually linked instruments – circumstances in which payment is prioritized to the holders of multiple contractually linked instruments that create concentrations of credit risk.

Directly attributable transaction costs

Transaction costs are included in the initial measurement of financial assets, except for those measured at FVTPL.

Transaction costs include only those costs that are directly attributable to the acquisition or origination of the financial asset. They are incremental costs that would not have been incurred if the instrument had not been acquired, originated or issued. These include, for example, fees and commission paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties, credit assessment fees and registration charges and similar costs.

Subsequent measurement – Amortized cost

Amortized cost is calculated using the effective interest rate (EIR) method. This allocates interest income at a constant rate over the period to which it relates, regardless of when it is paid.

The following items are recognized in the income statement:

- Interest income using the effective interest method
- Expected credit losses and reversals
- Foreign exchange gains and losses

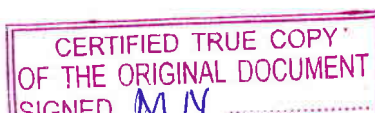
When the financial asset is derecognized, any gain or loss is recognized in the income statement.

Effective interest rate

The effective interest rate is calculated on initial recognition of a financial asset. It is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset. On initial recognition this will usually be equal to the fair value of the instrument, adjusted for transaction costs.

The estimate of expected cash flows considers all contractual terms (e.g. prepayment, call and similar options) but does not consider expected credit losses.

To calculate the interest charge for the relevant period, the effective interest rate is applied to the gross carrying amount of the asset at the previous reporting date.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

4 Significant accounting policies (continued)

(e) Financial instruments (continued)

Initial classification and measurement of financial assets (continued)

Most financial liabilities are classified in the amortized cost measurement category. Financial liabilities may be classified as fair value through profit and loss ("FVTPL") in some rare scenarios.

All financial liabilities are initially measured at fair value. Directly attributable transaction costs are deducted from the amount initially recognized. An exception exists for financial liabilities at FVTPL, which are measured at fair value with transaction costs immediately recognized in the income statement.

Subsequent to initial measurement:

Financial liabilities at FVTPL are measured at fair value with changes included in the income statement, except for changes in own-credit risk presented in OCI for liabilities designated under the fair value option.

Other financial liabilities are generally measured at amortised cost following the guidance in section. However, financial liabilities represent your contractual obligation to pay and so will never include a loss allowance.

Modification of financial assets and liabilities

If a debt instrument is restructured or refinanced and the terms have been substantially modified, the transaction must be accounted for as an extinguishment of the old debt instrument, with a gain or loss recognised in the P&L. The new debt instrument is recognised at fair value.

Impairment of financial assets

Most financial assets are subject to impairment testing under the expected loss model. It is not necessary for a loss event to occur before an impairment loss is recognised. Any impairment loss allowance is recognised in the income statement.

Expected credit losses

IFRS 9 Financial Instruments requires the Company to recognise expected credit losses ("ECL") on loans to customers which involves significant judgement and estimates.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Company's implementation of IFRS 9 are:

— Model estimations – inherently judgemental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD"), and exposures at default ("EAD"). The PD model used for loans and advances is the key driver of the Company's ECL results and are therefore the most significant judgemental aspect of the ECL modelling approach.

Expected credit loss is a probability-weighted estimate of credit losses over the expected life of a financial asset using all reasonable and supportable information available about past events and current conditions supplemented by forecasts of future economic conditions. The macro-economic overlay involves a point-in-time assessment of the impact of expected macro-economic developments on the credit losses.

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

4 Significant accounting policies (continued)

(e) Financial instruments (continued)

Expected credit losses (continued)

Defaulted loans are labelled stage 3 exposures. The non-defaulted loans are either stage 1 or stage 2, depending on whether credit risk significantly increased since inception. Such deterioration would bring the loan from stage 1, for which 12 Month ECL provision are required, to stage 2, for which lifetime ECL needs to be calculated. The introduction of ECL provisioning results in the need to develop specific ECL methodologies and to adopt policies dealing with amongst others stage transfers and the incorporation of macro-economic overlays.

The standard includes various practical expedients that can be used in specific situations, and reliefs adopters from using the general impairment requirements. Examples are investments with low credit risk (e.g. investment grade securities), for which different stage transfer monitoring applies, and a simplified approach for trade receivables and lease receivables.

IFRS 9 allows for a simplified approach to be applied to trade receivables, contract assets and lease receivables; the accounting policy choice can be made independently for each asset type. Under the simplified approach, the loss allowance is always equal to the lifetime expected credit losses.

The company has elected to use the practical expedients when measuring ECLs under the simplified approach by using a provision matrix for trade receivables. In doing so, the company has:

- Considered whether it is appropriate to segment trade receivables; and/or
- Use historical loss experience on its trade receivables and adjust historical loss rates to reflect information about current conditions, and reasonable and supportable forecasts of future economic conditions.

The simplified approach has been elected as appropriate due to the fact that all loans to customers have a loan term of 12 months and 6 months.

Forward looking information (FLI)

The company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. This is done by taking into account forecasted economic conditions by applying both expert judgement and also deploying models that link the performance of the macro economy to the probability of default (PD) exposure at default (EAD), and loss given default (LGD). Forecasts are developed using a probability weighted scenario-based approach to ensure that the asymmetry of the various economic outcomes is captured in the estimation of ECL.

The company has concluded that three (3) scenarios appropriately capture the non-linearities. The three scenarios that were applied as at 31 December 2022 are:

- Base line scenario;
- Upside scenario;
- Downside scenario

A base case is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with the available macro-economic information. External information considered includes economic data and forecasts published by governmental.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

4 Significant accounting policies (continued)

(f) Impairment of non-financial assets

For all assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

(g) Property and equipment

Property and equipment are stated at cost or valuation, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and for qualifying assets, borrowing costs.

The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Residual value, useful life and depreciation methods are reviewed at least annually at the reporting date. Changes in the residual value and expected useful life are accounted for by changing the depreciation charge for the year, and treated as changes in accounting estimates. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

On revaluation, surplus is credited to the property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of comprehensive income, in which case the increase is recognized in the statement of comprehensive income. A revaluation deficit is recognized in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the property, plant and equipment revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made.

Where parts of an item of property, plant and equipment have significantly different useful lives, they are accounted for as separate items of property, plant and equipment. Although individual components are accounted for separately, the financial statements continue to disclose a single asset.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

4 Significant accounting policies (continued)

(h) Property and equipment (continued)

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the company.

Depreciation is calculated at annual rates estimated to write off carrying values of the assets over their expected useful lives to their estimated residual values.

The annual depreciation rates in use are:

	Rate
Equipments & Machineries	20%
Computer and equipments	33.33%
Furniture and fixtures	10%
Vehicles	20%

(i) Intangible assets

The company's intangible assets include the value of computer software. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the company.

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortized over the useful life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss. Amortization is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives of 4 years.

(j) Income tax expense

Income tax expense is the aggregate amount charged/ (credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognized in the profit and loss account except when it relates to items recognized in other comprehensive income, in which case it is also recognized in other comprehensive income, or to items recognized directly in equity, in which case it is also recognized directly in equity.

Current income tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax

Deferred tax is determined for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

4 Significant accounting policies (continued)

(j) Income tax expense (continued)

Current income tax

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities. However, for investment property that is measured using the fair value model, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Deferred tax liabilities are recognized for all taxable temporary differences except those arising on the initial recognition of an asset or liability, other than through a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Recognized and unrecognized deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognized amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities. However, for investment property that is measured using the fair value model, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Deferred tax liabilities are recognized for all taxable temporary differences except those arising on the initial recognition of an asset or liability, other than through a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Recognized and unrecognized deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognized amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

(k) Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
 - variable lease payment that are based on an index or a rate, initially measured using the index or rates at the commencement date
 - amounts expected to be payable by the Company under residual value guarantees
 - the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

4 Significant accounting policies (continued)

(k) Leases (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following; the amount of the initial measurement of lease liability plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following; the amount of the initial measurement of lease liability plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

When the Company is the lessor, the lease must be classified as either a finance lease or an operating lease. A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee.

An operating lease is a lease where substantially all of the risks and rewards of the leased asset remain with the lessor.

When the lease is deemed a finance lease, the leased asset is not held on the balance sheet; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. When the lease is deemed an operating lease, the lease income is recognised on a straight-line basis over the term of the lease unless another systematic basis is more appropriate.

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

4 Significant accounting policies (continued)

(l) Foreign Currency translation

(a) Functional and presentation currency

Items included in the financials are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Rwanda Francs (Frw), which is the company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated using daily average exchange rates as declared by the National Bank of Rwanda. 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 the statement of comprehensive income.

All foreign exchange gains and losses are presented in the statement of comprehensive income account within 'other income'.

(m) Fair value measurement

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. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

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.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available thereby allowing for situations in which there is little if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability.

As inputs are not available for loans of BRAC, level 3 hierarchy of fair value is used to measure value for loan at fair value.

(n) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(o) Share capital, accumulated losses, and capital awaiting allocation

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

Accumulated losses reserve or retained earnings reserve is a reserve for the company's losses/profit carried over.

Capital awaiting allocation is additional cash injected by BRAC International Holdings B. V that is yet to be allocated to share capital. Share money deposit is recognised when the funds have been received.

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

4 Significant accounting policies (continued)

(p) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date taking into account the risks and uncertainties surrounding the obligation.

(q) Grants

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

(u) Comparatives

The accounting policies are consistent with those reported in the previous year except for the adoption of the standards and amendments effective for the current period as set out note 3 to the financial statements.

(v) Member savings

The initial relationship between customers and the company is that customers are admitted as members, and all members are required to make savings. These savings consist of a mandatory part which is determined by the member's group and is collected at the group's weekly meeting. This is the minimum weekly deposit which is meant to encourage a culture of saving, and members are free to deposit higher amounts at the same group meeting into the same savings account, and that additional portion is voluntary savings.

Mandatory and voluntary savings can be withdrawn at any time. However, if the client has taken a loan, they must leave the minimum percentage amount as required per the loan cycle and loan amount.)

Member savings are recorded when the funds are received from customers.

(v) Foreign currency translation

Foreign currency transactions are translated into the Functional Currency using the 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

g) Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. ~~Changes in the fair value of derivatives are~~

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies

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

The company is faced by liquidity, interest rate, credit and foreign currency risks in regards to its principal non-derivative financial instruments. The directors review and agree to the policies of managing these risks. The company does not engage in speculation in the markets and neither does it trade in derivative financial instruments. The company's main financial instruments are;

- Cash and cash equivalents
- Restricted deposits
- Trade and other receivables
- Trade and other payables
- Amounts due to and from related parties

The main risk arising from the company's' financial instruments are liquidity, foreign currency and credit risk.

i) Liquidity risk

Liquidity risk is the risk that BRAC Rwanda Microfinance Company Plc will encounter difficulty in meeting obligations from its financial liabilities. BRAC Rwanda Microfinance Company Plc'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, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to BRAC Rwanda Microfinance Company Plc reputation.

BRAC Rwanda Microfinance Company Plc's management maintains a portfolio of short-term liquid assets, largely made up of Cash at Bank, to ensure that sufficient liquidity is maintained within BRAC Rwanda Microfinance Company Plc as a whole. The liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The key measure used by BRAC Rwanda Microfinance Company Plc for managing liquidity risk is the ratio of net liquid assets to deposits from customers. Details of the reported Company ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	31 December 2022	31 December 2021
At close of the year	217%	43%
Average for the year	159%	91%
Maximum for the year	268%	114%
Minimum for the year	37%	43%
Minimum statutory requirement	30%	30%



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

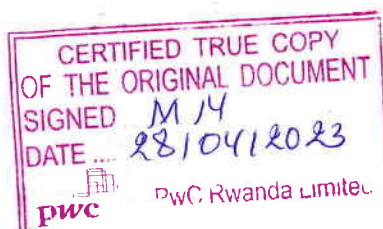
5 Financial risk management objectives and policies (continued)

i) Liquidity risk (continued)

The table below summarizes BRAC Rwanda Microfinance Company Plc's liquidity risk as at 31 December 2022, categorized into relevant maturity rankings based on undiscounted cash flows.

Liquidity risk management Year ended 31 December 2022	On demand	less than 3 months Frw	3-12 months Frw	1-5 years Frw	Total Frw
Loans to customers	-	1,973,924,893	1,302,148,386	13,801,543	3,289,874,822
Other assets	-	860,628	85,424,524	-	86,285,152
Cash and cash equivalents	3,599,941,645	-	-	-	3,599,941,645
Total	3,599,941,645	1,974,785,521	1,387,572,910	13,801,543	6,976,101,619
Other liabilities	-	524,423	397,886,000	44,209,556	442,619,979
Related party payables	-	1,668,169	92,343,556	-	94,011,725
Member savings	1,367,159,018	-	-	-	1,367,159,018
Term loan	-	1,744,926,884	1,963,429,810	-	3,708,356,694
Lease liability	-	269,744,719	-	-	269,744,719
Total	1,367,159,018	2,016,864,195	2,453,659,366	44,209,556	5,881,892,135
Excess liquidity/(gap)	2,232,782,627	(42,078,674)	(1,066,086,456)	(30,408,013)	1,094,209,484

The table below summarizes BRAC Rwanda Microfinance Company Plc's liquidity risk as at 31 December 2021, categorized into relevant maturity rankings based on undiscounted cash flows.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

i) Liquidity risk (continued)

Liquidity risk management	On demand	Less than 3 months	3-12 months	1-5 years	Total
Year ended December 2021					Frw
Loans to customers	-	2,366,077,408	6,469,878	-	2,372,547,286
Other assets	-	3,051,024	-	2,103,236	5,154,260
Cash and cash equivalents	803,214,280	-	-	-	803,214,280
Total	803,214,280	2,369,128,432	6,469,878	2,103,236	3,180,915,826
Other liabilities	-	149,008,456	138,901,483	-	287,909,939
Related party payables	-	34,887,649	200,637,514	-	235,525,163
Member savings	954,695,597	-	-	-	954,695,597
Term loan	-	407,941,807	-	-	407,941,807
Lease liability	-	92,338,501	123,118,002	153,897,502	369,354,005
Total	954,695,597	684,176,413	462,656,999	153,897,502	1,847,484,704
Excess liquidity/(gap)	(151,481,317)	1,684,952,019	(456,187,121)	(151,794,266)	925,489,315

ii) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The company separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of the changes in the market interest rates. The company's exposure to the risk of changes in market interest rates is minimal since it has no debt obligations with floating interest rates.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

ii) Market risk (continued)

Interest risk sensitivity gap analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the company's loss before tax.

Sensitivity analysis:		Effect on loss before tax	Effect on loss before tax
		Frw	USD
31 December 2022 (+/-) 2%		(50,930,372)	(47,567)
31 December 2021 (+/-) 2%		(32,084,805)	(32,397)

Interest risk sensitivity gap analysis

A summary of the company's interest rate sensitivity gap is as follows:

31-Dec-22	Less than 1 Month Frw	1-3 Months Frw	3 – 12 Months Frw	1 – 5 Years Frw	Total Frw
Assets					
Loans to customers	3,056,310,884	127,406,436	92,355,959	13,801,543	3,289,874,822
Total Financial Assets	3,056,310,884	127,406,436	92,355,959	13,801,543	3,289,874,822
Liabilities					
Member savings	53,361,207	138,481,921	268,061,117	954,695,597	1,414,599,842
Total Financial Liabilities	53,361,207	138,481,921	268,061,117	954,695,597	1,414,599,842
Total interest repricing gap	3,002,949,677	(11,075,485)	(175,705,158)	(940,894,054)	1,875,274,980
31-Dec-21					
Assets					
Loans to customers	2,362,653,835	3,423,573	6,469,878	-	2,372,547,286
Total Financial Assets	2,362,653,835	3,423,573	6,469,878	-	2,372,547,286
Liabilities					
Member savings	77,610,280	196,110,827	328,207,997	352,766,493	954,695,597
Total Financial Liabilities	77,610,280	196,110,827	328,207,997	352,766,493	954,695,597
Total interest repricing gap	2,285,043,555	(192,687,254)	(321,738,119)	(352,766,493)	1,417,851,689



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

ii) Market risk (continued)

Foreign currency risk exposure

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board of directors has set limits on foreign currency positions. The foreign currency positions and revaluations are monitored on daily basis to ensure that positions are maintained within the established limits.

The amounts below summarize the foreign currency exposure position as at 31 December.

As at 31 December 2022	USD	Total
Assets		
Balances with banks	1,381,364	1,381,364
Total Assets	1,381,364	1,381,364
Liabilities		
Term loan	3,600,629	3,600,629
Related party payables	87,803	87,803
Donor grants	453,557	453,557
Other liabilities	6,270	6,270
Total Liabilities	4,148,259	4,148,259
Net financial position	(2,766,895)	(2,766,895)
Foreign currency risk exposure 31-Dec-22	Effect on profit before tax	Effect on profit before tax
	Frw	USD
Changes in USD +/- 5%	148,145,265	138,361
As at 31 December 2021	USD	Total
Assets		
Balances with banks	932,790	932,790
Total Assets	932,790	932,790
Liabilities		
Related party payables	118,956	118,956
Donor grants	200,000	200,000
Other liabilities	8,250	8,250
Total Liabilities	327,206	327,206
Net financial position	605,584	605,584
Foreign currency risk exposure 31-Dec-22	Effect on profit before tax	Effect on profit before tax
	Frw	USD
Changes in USD +/- 5%	15,910,065	16,360

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

ii) Market risk (continued)

Price risk

The company does not hold any instruments exposed to price risk.

iii) Credit risk

The company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the company by failing to pay amounts in full when due. Credit risk is the most important risk for the company's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, however as at 31 December 2022 the company did not have any off balance sheet exposure. Credit risk management and control is monitored by management, which reports regularly to the Board of Directors.

1. Credit risk measurement

(a) Loans and advances

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Company reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Company derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Probability of default

The company assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty.

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all the customers are segmented into five rating classes as shown below:

In assessing whether the credit risk on a financial asset has increased significantly, the Company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort.

The Company internal ratings scale

Description of the grade	Days in arrears	Regulatory rating	Company's ratings
Performing	0 – 29	1	1
Watch	30 – 89	2	2
Substandard	90 – 179	3	3
Doubtful	180 – 365	4	4
Loss	Above 366	5	5



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

Exposure at default

Exposure at default is based on the amounts the Company expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Company includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Loss given default

Loss given default or loss severity represents the Company expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

A. Maximum exposure to credit risk before collateral held or other credit enhancements

The financial instruments that present the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed below.

	31-Dec 2022 Frw	31-Dec 2021 Frw
Loans to customers Gross (Note 9)	3,503,911,759	2,396,802,645
Cash at Bank	3,596,478,716	802,939,376
Other assets	86,285,152	5,154,260
Total	7,186,675,627	3,204,896,281

B. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included under Note 2 (h) of the financial statements.

Maximum exposure to credit risk – financial instruments subject to ECL impairment

31 December 2022	Stage 1 Frw	Stage 2 Frw	Stage 3 Frw	Total Frw
Loans to customers (Gross)	3,233,159,746	134,350,018	136,401,995	3,503,911,759
Impairment Loss	(50,269,274)	(60,459,073)	(103,308,590)	(214,036,937)
Carrying Amount	3,182,890,472	73,890,945	33,093,405	3,289,874,822
31 December 2021	Stage 1 Frw	Stage 2 Frw	Stage 3 Frw	Total Frw
Loans to customers (Gross)	2,396,802,645	7,886,254	41,647,875	2,446,336,774
Impairment Loss	(34,148,810)	(4,462,681)	(35,177,997)	(73,789,488)
Carrying Amount	2,362,653,835	3,423,573	6,469,878	2,372,547,286

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

C. Credit risk management

Other than the change in credit risk rating for certain exposures, there were no other material changes to the policies and practices for the management of credit risk in 2022. We continued to apply the requirements of IFRS 9 'Financial Instruments' within Credit Risk.

We have established Bank-wide credit risk management and related IFRS 9 processes. We continue to assess actively the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating action, including the revision of risk appetites or limits, adjustment of interest rates and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, market practices and our local regulatory requirements.

Credit risk grading

Microfinances, SEP and Agri- Business uses the National Bank of Rwanda (BNR) credit risk gradings to reflect its assessment of the probability of default of retail counterparties. The facilities are rated as either performing, watch, substandard, doubtful or loss, based on the number of days overdue. The classification criteria are as follows:

Performing

These are credit facilities which are up to date in payments. Where there are no fixed payments, these are facilities that are operating within their approval limits and are unexpired.

Watch

These are credit facilities where principal or interest is due and unpaid for 30 days to 89 days, or for facilities with no fixed payments, the approval limit has been exceeded by 30 days to 89 days, or the credit line has expired for more than 30 days to 89 days.

Substandard

These are loan balances due for 90 days but less than 180 days. They are also those credit facilities that display well-defined credit weaknesses that jeopardize the liquidation of the debt such as inadequate cash flow to service the debt, undercapitalized or insufficient working capital, absence of adequate financial information or security documentation and irregular payment of principal or interest.

Doubtful

These are loan balances that are more than 180 days but less than 365 days overdue. They are also those credit facilities which, in addition to the weaknesses existing in substandard credits, have deteriorated to the extent that full repayment is unlikely or that realizable security values will be insufficient to cover the Company exposure.

Loss

These are loans that are more than 365 days overdue. These are also those credit facilities that are considered uncollectable or which may have some recovery value, but it is not considered practicable nor desirable to defer write off. They are also accounts classified as "Doubtful" with little or no improvement over the period it has been classified as such.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. Once a facility is classified as substandard, the probability of default reaches 100%.

The table below shows the link between the regulator risk classifications and the IFRS 9 stage allocation for assets for the Company;



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

C. Credit risk management

(continued) Credit grading rating

(continued)

Loss (continued)

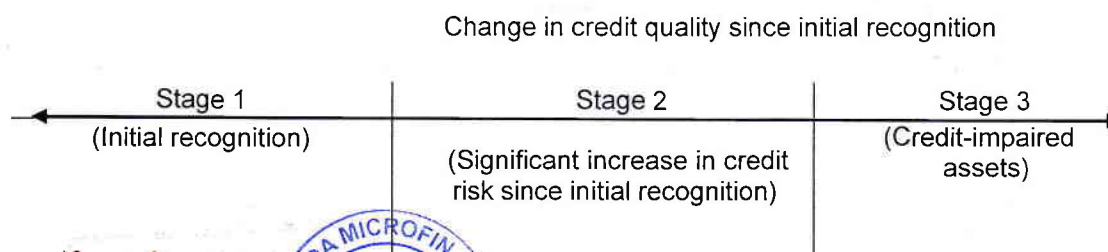
National Bank of Rwanda Guidelines	Days past due	Stage allocation
Normal	0-29	1
Watch	30-89	2
Sub-standard	90-179	3
Doubtful	180-364	3
Loss	Over 364 or considered uncollectible	3

D. Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. Please refer to note 5.3.1 for a description of how the Company determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 4.e for a description of how the Company defines credit-impaired and default.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 4.e includes an explanation of how the Company has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D. Expected credit loss measurement (continued)

The key judgements and assumptions adopted by the Company in addressing the requirements of the standard are discussed below:

D.1 Significant increase in credit risk

The Company in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company historical experience, expert credit assessment and forward-looking information.

The Company in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company historical experience, expert credit assessment and forward-looking information.

The Company identifies a significant increase in credit risk where

- Exposures have a regulatory risk rating of "WATCH"
- An exposure is greater than 30 days this is in line with the IFRS 9 30 DPD rebuttable presumption;
- an exposure has been restructured in the past due to credit risk related factors or which was NPL and is now regular (subject to the regulatory cooling off period); or
- by comparing an exposure:
 - credit risk quality at the date of reporting; with
 - the credit risk quality on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Company in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company historical experience, expert credit assessment and forward-looking information.

The Company identifies a significant increase in credit risk where

- exposures have a regulatory risk rating of 'WATCH';
- an exposure is greater than 30 days past due – this is in line with the IFRS 9 30 DPD rebuttable presumption;
- an exposure has been restructured in the past due to credit risk related factors or which was NPL and is now regular (subject to the regulatory cooling off period); or
- by comparing an exposure:
 - credit risk quality at the date of reporting; with
 - the credit risk quality on initial recognition of the exposure.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D.1 Significant increase in credit risk (continued)

Significant increase in credit risk (SICR) (continued)

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

Generally, restructuring is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk. Following restructuring, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

The assessment of SICR incorporates forward-looking information and is performed on a regular basis at a portfolio level for all financial instruments held by the Company. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Backstop

A backstop is applied, and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Company has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2022.

D.2 Definition of default and credit-impaired assets

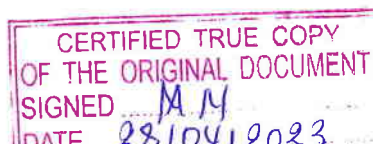
The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikelihood to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D.2 Definition of default and credit-impaired assets

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy

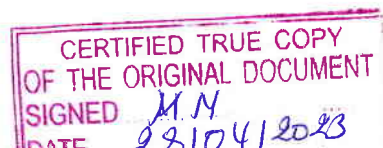
The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Company expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

D.3 Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. PDs have been developed using empirical data from the start of operation of BRAC Rwanda
- EAD is equal to the outstanding exposure at the reporting date
- Loss Given Default (LGD) represents the Company expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.
- The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D.3 Measuring ECL — Explanation of inputs, assumptions and estimation techniques (continued)

This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio. This is supported by historical analysis.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation — such as how the maturity profile of the PDs and how collateral values change etc.

D.4 Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario").

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Company credit team also provide other possible scenarios along with scenario weightings. The three scenarios and their attributes are reassessed at each reporting date. At 31 December 2022, the Company concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Company measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D.4 Forward-looking information incorporated in the ECL models (continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2022 and 31 December 2021 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Macroeconomic factors	Base scenario		Upside		Downside	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Domestic GDP	7%	7%	8%	8%	6%	6%
Interest rates	5%	5%	6%	6%	4%	4%
Inflation	5%	5%	4%	4%	6%	6%

The weightings assigned to each economic scenario at 31 December were as follows:

	Base	Upside	Downside
	%	%	%
As at 31 December 2022			
Scenario probability weighting	45	30	50
As at 31 December 2021			
Scenario probability weighting	40	30	30

The weights of Base and Upside have decreased/increased slightly reflecting the small change in dispersion in the scenarios. The impact on ECL is immaterial.

D.5 Sensitivity analysis

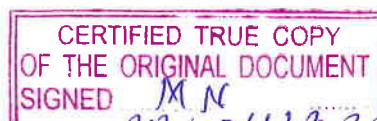
The most significant assumptions affecting the ECL allowance are as follows:

- (i) Collateral haircuts, and
- (ii) Period to recovery of collateral

Set out below are the changes to the ECL as at 31 December 2022 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Company economic variable assumptions.

Time to realisation: As the type of loan security deposited by the customer is cash, in these arrangements the directors have assumed time to realisation of cash collateral immediately after the loan write off.

Collateral haircuts: The directors have assumed collateral haircuts for cash collateral are negligible due to high degree of certainty on the value, credit quality and liquidity of the security.



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D.6 Credit exposure

Maximum exposure to credit risk — Financial instruments subject to impairment

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Company maximum exposure to credit risk on these assets.

Loans and advances					
	2022			2021	
	Stage 1	ECL staging		Total Frw	
	12-month ECL	Stage 2	Stage 3		
		Lifetime ECL	Lifetime ECL		
Normal	3,233,159,746	-	-	3,233,159,746	2,396,802,645
Watch	-	134,350,018	-	134,350,018	7,886,254
Default	-	-	136,401,995	136,401,995	41,647,875
Gross carrying amount	3,233,159,746	134,350,018	136,401,995	3,503,911,759	2,446,336,774
Expected credit loss	(50,269,274)	(60,459,073)	(103,308,590)	(214,036,937)	(73,789,488)
Carrying amount	3,182,890,472	73,890,945	33,093,405	3,289,874,822	2,372,547,286

Cash at Bank					
	2022			2021	
	Stage 1	Stage 2	Stage 3	Total	
	12-month ECL	Lifetime ECL	Lifetime ECL		
A	3,039,024,516	-	-	3,039,024,516	679,726,754
A-	-	-	-	-	-
A+	-	-	-	-	-
AA	-	-	-	-	-
B	557,454,200	-	-	557,454,200	123,212,622
B+	-	-	-	-	-
BB-	-	-	-	-	-
Expected credit loss	-	-	-	-	-
Carrying amount	3,596,478,716	-	-	3,596,478,716	802,939,376



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D.6 Credit exposure (continued)

Below is a transitional table between stages between 1 January 2021 to 31 December 2021:

	31 December 2022			Total
	Stage 1	Stage 2	Stage 3	FRw 000
	FRw 000	FRw 000	FRw 000	
Gross loans as at 1 January 2022	2,396,802,645	7,886,254	41,647,875	2,446,336,774
Transfers from stage 1 to stage 2 and 3	(90,763,660)	3,319,047	87,444,613	-
Transfers from stage 2 to stage 1 and 3	-	(1,507,505)	1,507,505	-
Transfers from stage 3 to stage 1 and 2	-	-	-	-
New loans issued	3,233,183,257	134,580,814	60,342,872	3,428,106,943
Subsequent change in loans	(2,646,474)	(2,355,655)	(12,892,995)	(17,895,124)
Net movement in gross loans	3,233,159,746	134,350,018	176,249,259	3,543,759,023
Financial asset derecognised	-	-	(39,847,264)	(39,847,264)
Gross loans as at 31 December 2022	3,233,159,746	134,350,018	136,401,995	3,503,911,759

	31 December 2021			Total
	Stage 1	Stage 2	Stage 3	FRw 000
	FRw 000	FRw 000	FRw 000	
Gross loans as at 1 January 2021	865,085,302	2,615,905	26,682,899	894,384,106
Transfers from stage 1 to stage 2	1,922,18	6,052,070	25,228,987	33,203,237
Transfers from stage 2 to stage 1	-	-	2,258,311	2,258,311
Transfers to stage 3	-	-	5,187,599	5,187,599
New exposures disbursed	2,396,802,645	6,129,127	14,878,358	2,417,810,130
Subsequent maturities	(867,007,482)	(6,910,848)	(16,934,333)	(890,852,663)
Net movement in gross loans	2,396,802,645	7,886,254	57,301,821	2,461,990,720
Financial asset derecognised	-	-	(15,653,946)	(15,653,946)
Gross loans as at 31 December 2021	2,396,802,645	7,886,254	41,647,875	2,446,336,774



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D.6 Credit exposure (continued)

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2022	34,148,810	4,462,681	35,177,997	73,789,488
Movements with P&L impact				
Transfers from stage 1 to stage 2 and 3	(56,301,050)	6,239	56,294,811	-
Transfers from stage 2 to stage 1 and 3	-	(359,572)	359,572	-
Transfers from stage 3 to stage 1 and 2	-	-	-	-
ECL on new exposure raised	50,269,274	60,452,834	46,654,207	157,376,315
Subsequent changes in ECL	54,586,262	106,297	-	54,692,559
Net movement to profit or loss	82,703,296	64,668,479	138,486,587	285,858,363
Other movements with no P&L impact				
Financial asset derecognised	(32,434,023)	(4,209,407)	(35,177,997)	(71,821,427)
Loss allowance as at 31 December 2022	50,269,274	60,459,072	103,308,590	214,036,936

	31 December 2021			
	Stage 1 Frw 000	Stage 2 Frw 000	Stage 3 Frw 000	Total Frw 000
Loss allowance as at 1 January 2021	12,916,672	873,536	15,086,116	28,876,324
Movements with P&L impact				
Transfers from stage 1 to stage 2	-	19,934	-	19,934
Transfers from stage 2 to stage 1	-	-	-	-
Transfers to stage 3	15,039,080	1,357,722	-	16,396,802
Transfers from stage 3	-	-	6,206,209	6,206,209
ECL on new exposure raised	34,148,810	4,442,747	12,574,986	51,166,543
Subsequent changes in ECL	(27,955,752)	(2,231,258)	16,964,632	(13,222,378)
Net movement to profit or loss	21,232,138	3,589,145	35,745,827	60,567,110
Other movements with no P&L impact				
Financial asset derecognised	-	-	(15,653,946)	(15,653,946)
Loss allowance as at 31 December 2021	34,148,810	4,462,681	35,177,997	73,789,488



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D.7 Collateral

The table below summarises carrying amounts of collateral held against loans to customers

As at 31-Dec 2022	Stage 1	Stage 2	Stage 3	Carrying Amount	Fair value of collateral	Net exposure	Associated ECL
	Frw	Frw	Frw	Frw	Frw	Frw	Frw
Loans to customers	3,182,567,928	73,890,946	33,415,949	3,289,874,822	510,466,655	2,779,408,167	214,036,937
Grand total	3,182,567,928	73,890,946	33,415,949	3,289,874,822	510,466,655	2,779,408,167	214,036,937

As at 31-Dec 2021	Stage 1	Stage 2	Stage 3	Carrying Amount	Fair value of collateral	Net exposure	Associated ECL
	Frw	Frw	Frw	Frw	Frw	Frw	Frw
Loans to customers	2,362,653,835	3,423,573	6,469,878	2,372,547,286	350,521,643	2,022,025,643	73,789,488
Grand total	2,362,653,835	3,423,573	6,469,878	2,372,547,286	350,521,643	2,022,025,643	73,789,488

D.8 Write-off policy

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Company recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2022 was FRw 39,847,264 (2021: FRw 15,653,946). The Company still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

D.9 Modification of financial assets

The Company sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery.

Such restructuring activities may include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Company monitors the subsequent performance of modified assets. The Company may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

iii) Credit risk (continued)

D.10 Concentration of credit risk

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. We use a number of controls and measures to minimise undue concentration of exposure in our two client segments. These include portfolio and counterparty limits, approval and review controls.

The Company monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2022		31 December 2021	
	FRw'000	% age	FRw'000	% age
Group loans	2,880,767,938	82.21%	2,045,097,945	86%
Small Enterprise loans	460,360,056	13.15%	299,587,072	13%
Agri Business loans	162,783,765	4.64%	27,862,269	1%
Gross loans	3,503,911,759	100%	2,446,336,774	100%

iii) Foreign exchange risk

Foreign exchange exposures in transactional currencies other than the local currency are monitored via periodic cash flow and budget forecasts and are kept to an acceptable level. The company's transactional exposures give rise to foreign currency gains and losses that are recognized in profit or loss.

	31 December 2022		31 December 2021	
	FRw'000	USD	FRw'000	USD
Assets in foreign currencies	1,479,043,011	1,381,364	329,210,109	326,074
Liabilities in foreign currencies	4,441,948,303	(4,148,259)	993,689,042	(984,223)
Net foreign currency exposure at the end of the year	(2,962,905,292)	(2,766,895)	(664,478,933)	(658,149)

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates of major transaction currencies, with all other variables held constant, of BRAC Rwanda Microfinance Company Plc profit before tax (due to changes in the fair value of monetary assets and liabilities).

Currency	Increase/decrease in exchange rate	31 December 2022	31 December 2021
		FRw'000	FRw'000
USD	+5%	148,145,265	3,834,175
	-5%	(148,145,265)	(3,834,175)



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

5 Financial risk management objectives and policies (continued)

v) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology, and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The company's objective is to manage operational risk so as to prevent damage to its reputation and avoid control procedures that restrict initiative and creativity. The directors have the responsibility of developing and implementing controls to address operational risks. This is supported by the company standards for the management of operational risks in;

- Compliance and legal requirements
- Training and professional development
- Ethical and business standards
- Development of contingency plans
- Compliance with legal and regulatory requirements
- Developing requirements for the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risks identified.

vi) Capital Management

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the company consists of cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings.

6 Fair value measurement of financial instruments

Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Fair value hierarchy

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

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.



BRAC RWANDA MICROFINANCE COMPANY PLC
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6 Fair value measurement of financial instruments (continued)

All financial assets are held at amortised cost and none at fair value. Therefore, amortised cost approximates fairvalue.

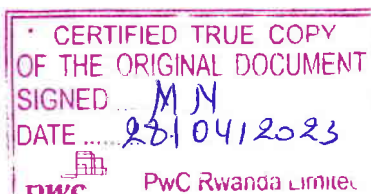
31 December 2022	Level 1 FRW	Level 2 FRW	Level 3 FRW	Total FRW
Loans to customers	-	3,289,874,822	-	3,289,874,822
Derivatives at fair value through profit or loss	-	146,206,506	-	146,206,506
Other assets	-	86,285,152	-	86,285,152
Cash and cash equivalents	-	3,599,941,645	-	3,599,941,645
Total	-	7,122,308,125	-	7,122,308,125

Other liabilities	-	442,619,978	-	442,619,978
Donor grant	-	485,629,389	-	485,629,389
Term loan	-	3,855,236,678	-	3,855,236,678
Lease liability	-	269,744,719	-	269,744,719
Total	-	5,030,230,764	-	5,030,230,764

31 December 2021

	Level 1 FRW	Level 2 FRW	Level 3 FRW	Total FRW
Loans to customers	-	2,372,547,286	-	2,372,547,286
Other assets	-	5,154,260	-	5,154,260
Cash and cash equivalents	-	803,214,280	-	803,214,280
Total	-	3,180,915,826	-	3,180,915,826

Other liabilities	-	287,909,939	-	287,909,939
Donor grant	-	302,218,314	-	302,218,314
Term loan	-	407,941,807	-	407,941,807
Lease liability	-	369,354,005	-	369,354,005
Total	-	1,367,424,065	-	1,367,424,065



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FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

7 Property and equipment

Year ended 31 December 2022	Furniture & Fixtures	Computer & Peripherals	Equipment & Machineries	Vehicles	Total
Cost	Frw	Frw	Frw	Frw	Frw
As at 1 January 2022	83,792,750	117,267,531	52,880,500	64,869,200	318,809,981
Additions	37,291,800	230,477,721	28,728,000	39,428,651	335,926,172
As at 31 December 2022	121,084,550	347,745,252	81,608,500	104,297,851	654,736,153
Depreciation					
As at 1 January 2022	12,759,787	47,950,354	14,784,155	32,197,691	107,691,987
Charge for the year	10,473,854	88,328,734	13,415,746	19,351,915	131,570,249
As at 31 December 2022	23,233,641	136,279,088	28,199,901	51,549,606	239,262,236
Carrying amounts					
As at 31 December 2022	97,850,909	211,466,164	53,408,599	52,748,245	415,473,917

Year ended 31 December 2021	Furniture & Fixtures	Computer	Equipment	Vehicles	Total
Cost	Frw	Frw	Frw	Frw	Frw
As at 1 January 2021	59,026,750	84,598,305	40,667,000	63,369,200	247,661,255
Additions	24,463,500	33,717,226	12,733,500	1,500,000	72,414,226
Asset transfer to BIHBV	302,500	-	-	-	302,500
Disposal adjustment	-	(1,048,000)	(520,000)	-	(1,568,000)
As at 31 December 2021	83,792,750	117,267,531	52,880,500	64,869,200	318,809,981
Depreciation					
As at 1 January 2021	13,533,045	11,643,317	9,898,958	11,482,182	46,557,502
Charge for the year	7,173,049	32,240,615	9,372,748	12,723,824	61,510,236
Asset depreciation	45,378	-	-	-	45,378
transferto BIHBV RO	-	(194,702)	(226,427)	-	(421,129)
Disposal adjustment	(7,991,685)	4,261,124	(4,261,124)	7,991,685	-
Others adjustment	-	-	-	-	-
As at 31 December 2021	12,759,787	47,950,354	14,784,155	32,197,691	107,691,987
Carrying amounts					
As at 31 December 2021	71,032,963	69,317,177	38,096,345	32,671,509	211,117,994



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8 Intangible assets	2022	2021
Cost	Frw	Frw
As at 1 January	64,598,932	54,406,930
Additions	194,263,423	10,192,002
As at 31 December	258,862,355	64,598,932
Amortization		
As at 1 January	32,524,675	18,710,606
Charge for the year	55,548,867	13,814,069
As at 31 December	88,073,542	32,524,675
Carrying amounts		
As at 31 December	170,788,813	32,074,257

Intangible asset is sbiCloud software, T24 software, Payroll software, and a tab based Digital Field Application.

9 Loans and advances	2022	2021
	Frw	Frw
Group loans (Microfinance)	2,843,909,644	2,082,940,783
Small Enterprises Program (SEP)	453,992,410	301,087,072
Agri-Business	154,275,899	27,862,269
Add: Interest receivable	83,143,056	49,182,155
Less: Loan write off MF	(15,592,647)	(13,235,505)
Less: Loan write off SEP	(10,042,663)	(1,500,000)
Less: Loan write off Agri-Business	(223,956)	-
Less: Impairment loss on loans	(214,036,937)	(73,789,488)
As at 31 December	3,289,874,822	2,372,547,286

The movement on the loan accounts is analysed as shown below;

Opening balance	2,397,154,619	878,638,359
Add: Loans disbursement MF	6,798,640,000	4,226,160,016
Add: Loans disbursement SEP	694,600,000	423,200,000
Add: Loans disbursement AGRI Business	313,800,000	33,830,000
Less: Loan realization MF	(6,024,435,634)	(2,854,731,700)
Less: Loan realization SEP	(545,744,646)	(289,238,820)
Less: Loan realization Agri Finance	(187,386,370)	(5,967,731)
Less: Loan write off MF	(15,592,647)	(13,235,505)
Less: Loan write off SEP	(10,042,663)	(1,500,000)
Less: Loan write off Agri-Business	(223,956)	-
Principal outstanding	3,420,768,703	2,397,154,619
Add: Interest receivable	97,131,054	50,100,596
Less: Interest receivable - write-off	(13,987,998)	(918,441)
Less: Impairment loss on loans	(214,036,937)	(73,789,488)

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
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9 Loans and advances (continued)

The movement on the impairment is shown below;

	2022	2021
	Frw	Frw
At 1 January	73,789,488	28,876,324
Add: Charge for the year	180,094,713	60,567,110
Less: Loan write off MF	(15,592,647)	(13,235,505)
Less: Loan write off SEP	(10,042,663)	(1,500,000)
Less: Loan write off Agri-Business	(223,956)	-
Less: Interest receivable write-off MF	(8,680,233)	(430,428)
Less: Interest receivable write-off SEP	(5,307,765)	(488,013)
	214,036,937	73,789,488

10 Other assets

Prepaid medical insurance	85,424,524	-
Receivable from advance to 3 rd Party	-	2,103,236
Receivable from RRA	860,628	3,051,024
	86,285,152	5,154,260

11 Cash and cash equivalents

Cash in hand	3,462,929	274,904
Cash at bank	3,596,478,716	802,939,376
	3,599,941,645	803,214,280

12 Share capital

Balance brought forward	3,281,460,000	1,400,600,000
Capitalisation in the year	1,412,080,000	1,880,860,000
469,354 ordinary shares of Rwf 10,000 each	4,693,540,000	3,281,460,000

13 Other capital contribution

At 1 January	1,412,080,000	1,880,864,637
Addition	2,718,530,000	1,412,075,363
Converted in share capital	(1,412,080,000)	(1,880,860,000)
	2,718,530,000	1,412,080,000

14 Accumulated losses

Brought forward losses	(3,413,529,579)	(1,809,289,316)
Loss for the year	(2,552,706,256)	(1,604,240,263)
	(5,966,235,835)	(3,413,529,579)



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BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

15 Member savings	2022 Frw	2021 Frw
Compulsory savings/loan security	520,938,867	350,521,643
Voluntary savings	893,660,975	604,173,954
	1,414,599,842	954,695,597
16 Other liabilities	2022 Frw	2021 Frw
Accrual for salary	524,423	282,000
Other liabilities	201,577,153	57,661,818
Statutory deductions	89,911,135	65,330,026
Withholding tax payable	126,390,717	140,521,076
Accrual for Social Security Benefit/Self Insurance	10,851,538	5,994,594
Audit fee accrual	13,365,012	18,120,425
	442,619,978	287,909,939
17 Donor grants	2022 Frw	2021 Frw
Opening balance	-	20,516,839
Utilized grant in the year	-	(20,516,839)
Subtotal	-	-
Whole planet foundation		
Opening balance	302,218,314	193,686,000
Grant from whole planet foundation	166,228,361	302,218,314
Utilized grant in the year	(365,718,314)	(193,686,000)
Subtotal	102,728,361	302,218,314
Social performance task Force		
Opening balance	-	-
Grant from social performance task Force	-	5,876,891
Utilized grant in the year	-	(5,876,891)
Subtotal	-	-
Mastercard foundation		
Opening balance	-	-
Grant from Mastercard foundation	791,042,028	-
Utilized grant in the year	(408,141,000)	-
Subtotal	382,901,028	-
	485,629,389	302,218,314



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
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17 Donor grants (continued)

The Whole Plant Foundation agreement of 22 November 2019 was for a grant of USD800,000 over 3 years to fund working capital for general microfinance products in all branches throughout the country. The funds were disbursed as USD300,000 in year 1 (2020); followed by USD200,000 in year 2 (2021), and finally USD300,000 in year 3 (2022). The money is to be utilized in providing loans to customers.

The company is required to submit progress reports 25 days after each quarter end stating the progress of the project and its successes. The company is also required to submit annual financial reports at the end of its financial year.

The Whole Plant Foundation agreement of 13 September 2022 was for a grant of US\$560,000 over 3 years to fund working capital for Agricultural loan products in 16 branches throughout the country. The funds were disbursed as USD160,000 in year 1 (2022); followed by USD200,000 in year 2 (2023), and finally USD200,000 in year 3 (2024). The money was utilized in providing loans to customers.

The company is required to submit progress reports 25 days after each quarter end stating the progress of the project and its successes. The company is also required to submit annual financial reports at the end of its financial year.

The Stichting BRAC International agreement of 13 June 2022 was for a grant of Mastercard foundation USD756,616 and was received in 2022 to provide support to young women in Rwanda.

The company is also required to submit quarterly financial reports 20 calendar days after the end of the calendar quarter.

18 Term Loan

	2022	2021
	Frw	Frw
Short term loan	3,854,563,200	403,848,000
Accrued interest	673,478	2,046,904
	<u>3,855,236,678</u>	<u>405,894,904</u>

BRAC Rwanda Microfinance Company Plc secured a term loan amounting to USD 2 million from BRAC International Finance BV (BIFB.V) in May 2022 for a period of 40 months from the date of disbursement with grace period of 4 months on the principal facility and paying interest accruing during the grace period on a quarterly basis. The loan is quoted at the rate of 5.85% fixed US Dollar rate with no expected increase until maturity. The loan was obtained for facilitating micro-finance lending.

BRAC Rwanda Microfinance Company Plc secured a term loan amounting to USD 1.6 million from BRAC International Finance BV (BIFB.V) in September 2022 for a period of 40 months from the date of disbursement with grace period of 4 months on the principal facility and paying interest accruing during the grace period on a quarterly basis. The loan is quoted at the rate of 6.85% fixed US Dollar rate with no expected increase until maturity. The loan was obtained for facilitating micro-finance lending.

USD (Fixed) vs. RWF (Fixed) cross currency swap Transaction: Fixing definition for future payments – again, the standard ISDA definition for USDRWF would be Where "USD/RWF CB avg." means the USD/RWF arithmetic mean of Buying and Selling exchange rates of RWF against USD, as displayed on the website of the Central Bank of Rwanda and is expressed as the amount of Rwandan Franc per one United States Dollar, on that Valuation Date. Reference currency is RWF and Settlement currency is USD.

	2022	2021
	Frw	Frw
Cash and cash equivalents	(3,599,941,645)	(803,214,280)
Short term loan	3,855,236,678	405,894,904
Lease liability	269,744,719	329,522,525
	<u>525,039,752</u>	<u>(67,796,851)</u>



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

18 Term Loan (continued)

	2022 Rwf '000
At start of year	405,894,904
Additions during the year	4,244,222,850
Interest expense	148,437,800
Interest repayments	(147,765,751)
Principal repayments	(941,761,060)
Total borrowings	3,855,236,678

Net debt reconciliation	Short term loan	Lease liability	Cash and equivalents	Total
Net debt as at 1 January 2021	-	-	(1,143,969,242)	(1,143,969,242)
Cash flows	405,894,904	329,522,525	340,754,962	1,076,172,391
Net debt as at 31 December 2021	405,894,904	329,522,525	340,753,818	(67,796,851)
Cash flows	3,449,341,774	(59,777,806)	(2,796,727,365)	592,836,603
Net debt as at 31 December 2022	3,855,236,678	269,744,719	(3,599,941,645)	525,039,752

19 Income on loan interest

	2022 Frw	2021 Frw
Group loans (Microfinance)	984,411,311	543,148,563
Small Enterprises Program (SEP)	177,127,296	86,559,607
Loan appraisal fee	78,091,900	46,831,900
Agri-business	31,604,123	1,967,727
	1,271,234,630	678,507,797

20 Interest & other financial expense

Interest on member savings	47,454,389	21,718,889
Other financial expenses	181,683,126	546,040
Interest on term loan	148,439,229	2,046,904
Interest on lease liability	54,540,051	39,831,480
	432,116,795	64,143,313

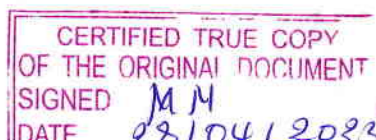


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BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

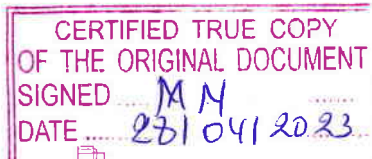
21 Membership and other fees	2022	2021
	Frw	Frw
Membership fee	30,190,000	24,106,000
Loan application fee	518,000	371,000
Sales of passbook	10,498,500	9,660,000
	41,206,500	34,137,000
22 Other income	2022	2021
	Frw	Frw
Other income	277,633	303,450
	277,633	303,450
23 Net foreign exchange income	2022	2021
	Frw	Frw
Unrealised foreign exchange loss	(152,394,145)	10,469,207
Fair value of SWAP	146,206,506	
Realized exchange gain	58,264,306	31,808,981
	52,076,667	42,278,188
24 Grant income	2022	2021
	Frw	Frw
Portion of utilized grant - BRAC USA	-	20,516,839
Portion of utilized grant -Whole Planet Foundation	365,718,314	193,686,000
Portion of utilized grant -Mastercard Foundation	408,141,000	-
Social performance task force	-	5,876,891
	773,859,314	220,079,730
25 Expected credit loss	2022	2021
	Frw	Frw
Loan loss provision expense	180,094,713	60,567,110
	180,094,713	60,567,110

31 December 2022	Stage 1	Stage 2	Stage 3	Total
	Frw	Frw	Frw	Frw
Loss allowance	29,037,136	56,152,680	94,904,897	180,094,713
31 December 2021				
Loss allowance	21,232,138	4,306,392	35,028,580	60,567,110



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

26	Employee benefits	2022	2021
		Frw	Frw
	Salaries	1,548,138,609	1,078,671,014
	Leave salaries	51,123,059	-
	Social security benefit expense	86,975,243	60,451,152
	Staff bonus	111,355,893	75,804,033
		1,797,592,804	1,214,926,199
27	Other operating expenses	2022	2021
		Frw	Frw
	Utilities	21,903,345	19,790,946
	Travel and transportation	188,807,682	101,106,073
	International travels AIM	1,616,897	-
	Air tickets & VISA cost	110,825,459	29,431,648
	Accommodation (hotel fare)	50,778,976	1,162,500
	Staff Perdiem	45,242,542	1,600,000
	Wi-Fi, mobile SIM & bill	114,912,241	47,772,523
	Maintenance and general expenses	343,429,366	138,403,732
	Meals	98,317,864	62,322,996
	Bank charges	11,289,130	4,784,034
	Medical expenses	150,379,440	41,240,663
	Business license & registration	2,428,825	1,812,475
	Need Assessment cost/Survey cost	17,884,250	39,633,777
	Vehicle maintenance & fuel	15,200,904	6,433,758
	Software development & purchase	94,185,702	103,261,762
	Digital Field Assistant-AIM	15,323,200	-
	Financial literacy Trn-AIM	2,112,000	-
	Centralization and streamlining of IT systems-AIM	330,419,647	-
	Impact Survey 60 decibels-AIM	28,035,046	-
	Member death benefit	2,520,000	1,530,000
	HO logistics expenses	81,185,893	316,394,804
	Local staff training cost	93,249,280	13,218,116
	Stationary expenses	68,012,084	65,584,642
	Uniform cost/campaign and community sensitization	-	245,300
	Visibility & communication expense	2,863,726	2,680,000
	Professional & consultancy fees	54,019,740	24,715,100
	Audit fees	19,546,796	18,120,425
		1,964,490,035	1,041,245,274



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

28 Depreciation & amortization

Depreciation expense	131,570,249	61,510,236
Amortization expense	55,548,867	13,814,069
Depreciation of ROU asset	129,947,536	123,340,228
	<u>317,066,652</u>	<u>198,664,533</u>

29 Cash generated from operations

	2022	2021
	Frw	Frw
Loss before income tax	(2,552,706,256)	(1,604,240,263)
Adjustments for:		
Depreciation & amortization	317,066,652	198,664,533
Loan impairment	180,094,713	60,567,110
Foreign exchange gain	-	(42,278,188)
Reclassification in property & equipment*	-	1,146,870

Cash flow before changes in working capital

(2,055,544,891) (1,386,139,938)

Changes in working capital:

Decrease in receivables and other current assets	(261,298,299)	32,719,738
Increase in loans	(1,063,461,348)	(1,534,170,206)
Increase in donor grant	183,411,075	88,015,475
(Decrease)/ Increase of related party payables	(141,513,437)	139,550,596
Increase in deposits	459,904,245	601,929,104
Increase/(decrease) of current liabilities	154,710,040	138,878,060

Net cash used in operations

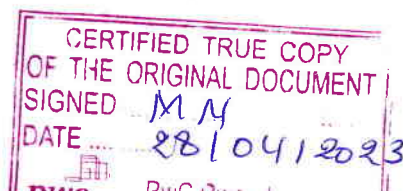
(2,723,792,615) (1,919,217,171)

30. Related party transaction

BRAC is 99.9% owned by BRAC international B.V a company incorporated in The Hague, The Netherlands. The ultimate controlling party is BRAC international. There are other companies that are related to the company through common shareholdings or common directorships.

Related party balances and the transactions carried out with related parties are set out below:

The movement for the balances above is as shown below



BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

30. Related party transaction (continued)

a) Key management personnel compensation		2022 Frw	2021 Frw
Salaries and wages		137,585,719	111,967,164
As at 31 December		7,378,344	4,129,851
b) Directors' emoluments		2022 Frw	2021 Frw
As non-executive		2,200,000	1,200,000
As at 31 December		2,200,000	1,200,000
c) Transactions with related party			
Management Fees		94,011,725	235,525,163
Interest on term loan		148,439,229	2,046,904
		242,450,954	237,572,067
d) Related party payable		2022 Frw	2021 Frw
BRAC International Holdings B.V.		92,343,556	235,525,163
Payable to BRAC Bangladesh		1,668,169	-
As at 31 December		94,011,725	235,525,163
31 Right of Use Asset and Lease liability		2022 Frw	2021 Frw
a) Opening balance-Right of use of assets		495,009,013	495,009,013
Additions		111,634,354	-
Modifications		(54,249,961)	-
For the period -Net Movement		57,384,393	-
Accumulated Depreciation of ROU assets		(253,287,764)	(123,340,228)
		299,105,642	371,668,785
b) Opening balance-Lease liability		329,522,525	495,009,013
Additions		111,634,354	-
Interest on lease liability		54,540,051	39,831,480
Modifications		(50,794,010)	-
Cash payment		(175,158,201)	(205,317,968)
For the period -Net Movement		(59,777,806)	-
		269,744,719	329,522,525

BRAC RWANDA MICROFINANCE COMPANY PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

32 Derivatives

The Company uses the following derivative instruments for non-hedging purposes which comprise solely of currency swaps.

Currency swaps held are commitments to exchange one set of cash flows for another and result in an economic exchange of currencies. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for lending activities.

The derivative instruments held become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The derivatives held by the Company are classified as financial assets at fair value through the profit or loss. The fair values of derivative financial instruments held are set out below:

	2022 Frw	2021 Frw
Currency swaps assets	3,854,563,200	-
Currency swaps liabilities	(3,708,356,694)	-
	<u>146,206,506</u>	<u>-</u>

32. CAPITAL COMMITMENTS

There were no capital commitments as at year end. (2021; None).

33. TAX

As per Law N° 006/2021 of 05/02/2021 on investment promotion and facilitation, the company is exempt from taxes for five years from the date of registration of 28 September 2018. As such the income tax expense Nil (2021 Nil) and no deferred taxes have been computed.

34. CONTINGENT LIABILITIES

The company had no contingent liabilities as at 31 December 2022 (2021: Nil).

32. ULTIMATE PARENT COMPANY

The ultimate parent company is BRAC international B.V a company incorporated in The Hague, The Netherlands.

33. EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report. (2022: NONE).



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