

BRAC UGANDA BANK LIMITED
ANNUAL REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

BRAC UGANDA BANK LIMITED
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2022

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BRAC UGANDA BANK LIMITED
CORPORATE INFORMATION
FOR YEAR ENDED 31 DECEMBER 2022

DIRECTORS

Mr. Albert Obongonyinge**	-	Chairperson
Mr. Anthony Peter Wainaina Kamau*****	-	Member (Appointed 18 January 2022)
Ms. Annette Mbabazi Rumanyika Mulira**		Member (Appointed 10 June 2022)
Mr. Shameran Abed*	-	Member
Ms. Florence Nsubuga Nakimbugwe**	-	Member (Appointed 18 February 2022)
Ms. Orsolya Farkas***	-	Member
Ms. Susanne Decker****	-	Member
Ms Margaret Mary N Musana Akora**	-	Member (Up to 10 January 2022)
Mr. David T Baguma**	-	Member (Up to 10 August 2022)
Mr. Nkosilathi Moyo*****	-	Managing Director/CEO (Appointed 30 May 2022)
Mr. William Maweje**	-	Executive Director/COO

*Bangladeshi **Ugandan ***Hungarian ****German *****Kenyan *****Zimbabwean

PRINCIPAL PLACE OF BUSINESS:

Kabuusu - Rubaga, Uganda
Plot 201, Mengo
P.O. Box 6582
Kampala, Uganda

REGISTERED OFFICE:

Kabuusu Rubaga, Uganda
Plot 201, Mengo
P.O. Box 6582
Kampala, Uganda

COMPANY SECRETARY:

AF Mpanga Advocates
P.O. Box 1520
Kampala, Uganda

AUDITOR

Ernst & Young
Certified Public Accountants
18 Clement Hill Road, Shimoni Office Village
P. O. Box 7215
Kampala, Uganda

BANKERS

Stanbic Bank Uganda Limited
Plot 17 Hannington Road
Crested Towers
P. O. Box 7131
Kampala, Uganda

Bank of Africa Uganda Limited
Plot 45 Jinja Road
P. O. Box 2750
Kampala, Uganda

Standard Chartered Bank Uganda Ltd
Plot 5 Speke Road
P. O. Box 7111
Kampala, Uganda

Equity Bank Uganda Limited
Plot 390 Muteesa 1 Road
P. O. Box 10184
Kampala, Uganda

dfcu Bank Limited
Plot 2 Jinja Road, UDB Towers
P.O. Box 70
Kampala, Uganda

Centenary Bank Uganda Limited
Mapeera House
Plot 44-46 Kampala Road
P. O. Box 1892
Kampala, Uganda

Post Bank Uganda Limited
Plot 4/6 Nkurumah road
P. O. Box 7189
Kampala, Uganda

Pride Microfinance Limited (MDI)
Victoria Office Park
Block B, Bukoto
Kampala, Uganda

Kenya Commercial Bank Limited
Plot 7, Kampala Road
P. O. Box 7399
Kampala, Uganda

Citi Bank Uganda Limited
Plot 4 Centre court, Ternan Avenue
Nakasero
Kampala, Uganda

BRAC UGANDA BANK LIMITED
DIRECTORS' REPORT
FOR YEAR ENDED 31 DECEMBER 2022

The directors have the pleasure in submitting their report and financial statements of BRAC Uganda Bank Limited ("the Bank") for the year ended 31 December 2022, which disclose the state of affairs of the Bank.

(A) REGISTRATION

BRAC Uganda Bank Limited a company limited by shares was incorporated on 6 June 2017 and acquired/assumed the business, assets and liabilities of BRAC Uganda Microfinance Ltd (by guarantee) that had commenced trading as a microfinance entity offering micro loans to its customers from 01 January 2010. The Bank has four shareholders namely; a) BRAC International Holdings B.V b) ASN Microkredietpool, c) DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH and d) Shorecap III LP.

Prior to 6 June 2017, the business was being carried on/conducted by BRAC Uganda Microfinance Limited incorporated on 27 August 2008 under the Companies Act, 2012 Laws of Uganda as an independent company limited by guarantee. The company prior to incorporation was a component of BRAC Uganda which was first incorporated as BRAC Foundation in January 2006 and it commenced business in June 2006. In March 2007, the name was changed to BRAC through the Registry of Companies. Later the Microfinance and Non-Microfinance Programs got incorporated as independent companies in August 2008 and September 2009 respectively.

On 30 September 2009, at a duly convened meeting of the Governing Board, BRAC transferred all assets and liabilities that relate (or are in any way connected with the Microfinance activity it had been operating in Uganda) to BRAC Uganda Microfinance Limited (by guarantee).

The Company effectively commenced trading independently on 1st January 2010 as BRAC Uganda Microfinance Limited (by guarantee).

On 7 March 2019, BRAC Uganda Bank Limited was awarded a license by Bank of Uganda authorizing the company to operate as a Credit Institution. Therefore, in addition to the lending, the company also accepts call and time deposits.

(B) VISION

A world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential.

(C) MISSION

The Bank's mission is to provide a range of financial services responsibly to people at the bottom of the pyramid in Uganda. We particularly focus on women living in poverty in rural, urban and hard to reach areas, to create self-employment opportunities, build financial resilience, and harness women's entrepreneurial spirit by empowering them economically.

(D) OUR VALUES

Innovation: we have been an innovator in the creation of opportunities for the poor to lift themselves out of poverty. We value creativity in program design and strive to display global leadership in groundbreaking development initiatives.

Integrity: we value transparency and accountability in all our professional work, with clear policies and procedures, while displaying the utmost level of honesty in our financial dealings. The Bank holds these to be the most essential elements of our work ethic.

Inclusiveness: we are committed to engaging, supporting and recognizing the value of all members of society, regardless of race, religion, gender, nationality, ethnicity, age, physical or mental ability, socioeconomic status and geography.

Effectiveness: we value efficiency and excellence in all our work, constantly challenging ourselves to perform better, to meet and exceed program targets, and to improve and deepen the impact of our interventions.

(E) PRINCIPAL ACTIVITIES

The Bank provides microfinance services to improve the livelihood of poor people in over 80 districts in Uganda focusing on extending loan facilities.

Following the license to operate as a credit institution (Tier 2 financial institution) granted by Bank of Uganda, the Bank includes the provision of call and time deposits as part of the financial services offered to people in Uganda.

(F) CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital based on requirements contained in the Financial Institutions Act. As at 31 December 2022, the Bank's regulatory ratios were as follows:

	2022	2021
	Ushs '000	Ushs '000
Tier 1 Capital	33,112,187	32,113,915
Tier 2 Capital	2,045,643	1,907,714
Total tier 1 + tier 2 capital	35,157,830	34,021,629
Total risk weighted assets	189,956,059	181,889,358
7		
Tier 1 capital ratio (Required 12.5%)	<u>17.43%</u>	<u>17.66%</u>
Total Capital ratio	<u>18.51%</u>	<u>18.70%</u>

Further information about capital adequacy is disclosed in Note 31(d) to the financial statements.

(G) COMPOSITION OF DIRECTORS

The directors who served during the year and up to the date of this report are set out on page 3.

(H) DIRECTORS' BENEFIT

During the year the directors received Ushs 299 million as retainer fees (2021: Ushs 352 million).

(I) CORPORATE GOVERNANCE

The directors are committed to the principles of good corporate governance and recognize the need to conduct the business in accordance with generally accepted best practice. In so doing, the Directors confirm that:

- The Board of Directors met regularly throughout the period;
- They retain full and effective control over the Bank;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance; and
- They bring skills and experience from their own spheres of business to complement the professional experience and skills of the management team.

As at 31 December 2022, the Board of Directors had nine directors comprising of Executive and Non-Executive Directors (NEDs), with a deliberate skills blend from financial, social and legal practice. The Board of Directors composition for the reporting period was as indicated below:

Classification	Number
Executive Directors	2
Non-Executive Directors	7

(I) CORPORATE GOVERNANCE (Continued)

The Board continued to carry out its role of formulating policies and strategies of the Bank, reviewing the business plan, ensure that the accounting system is maintained in accordance with acceptable standards, the books of the Bank are kept properly, and that accounts are checked by authorized auditors, as well as recruitment and development of key personnel.

The Board has established five board committees to ensure adequate oversight of the Bank's risk management. The committees comprise of: Assets and Liabilities, Risk and Credit, Audit, Compensation and Social Performance Committee.

In furtherance of its oversight function, the Board and the Committees meet at least quarterly to consider matters relating to the performance and operations of the Bank. Below is the summary of the Committee composition and the Board and Board Committee meetings held during 2022.

Meeting	Composition	Meetings held
Full Board	9	4
Assets and Liabilities Committee	4	4
Human Resources and Compensation Committee	3	4
Audit Committee	3	4
Credit and Risk Committee	3	4
Social Performance Committee	3	2

Apart from the statutory quarterly meetings, the Board held a number of adhoc meetings that deliberated and dealt with a number of issues that were beneficial and impactful to the Bank.

(J) RISK MANAGEMENT

The risk management framework of the Bank is disclosed in note 31 to the financial statements

(K) MANAGEMENT STRUCTURE

The Bank is under the supervision of the Board of Directors and the day-to-day management is entrusted to the Managing Director/Chief Executive Officer who is assisted by the Executive Director/Chief Operations Officer and other heads of departments and units. The organization structure of the Bank comprises of the following departments/Units:

- | | |
|---|--------------------------------------|
| 1. Finance and Accounts | 7. Human Resource and Training |
| 2. Credit | 8. Business Development and Strategy |
| 3. Internal Audit | 9. Procurement |
| 4. Compliance | 10. Legal and Company Secretarial |
| 5. Banking Operations | 11. Risk Management |
| 6. Information and Communication Technology | |

(L) RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in note 17 to the financial statements.

(M) FUTURE DEVELOPMENT PLANS

The focus for 2023 shall be: Growth with quality in credit and mobilize savings from the target segment, stabilization of the core banking system to support the scale up of the digital channels to ensure efficiency in service delivery and drive employee productivity while focusing on improving their value proposition to ensure accountability for performance. The specific projects to support the growth strategy include:

1. Scale-up Mobile banking and Agent Banking.
2. Piloting Digital Field Application.
3. Review of the Organizational structure and Salary alignments.
4. Phased relocation of satellites.
5. Review of all savings products.
6. Development of two credit products i.e. Agri-Finance product and Youth product under the AIM project.

(N) KEY ACHIEVEMENTS IN 2022

1. Rolled out the Pre-disbursement Orientation programme to all branches.
2. Carried out Client protection principles, customer service training and the Delinquency management trainings to all branches.
3. Review of the Bank's Digital strategy in line with the needs of the customers.
4. Rolled out Mobile Push and pull and agency banking solutions

(O) SOLVENCY

The Board of directors has reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

(P) GENDER PARITY

As of 31 December 2022, the Bank had 1,944 staff (2021: 2,009). The female staff were 82% (2021:82%).

(Q) WELFARE OF EMPLOYEES

Relationship between management and employees

There were continued good relations between employees and management for the period. There were no unresolved complaints received by management from the employees during the year.

Staff continued to get performance incentive schemes during the period. Grievance handling guidelines were circulated to all employees to clearly understand their rights as well as guiding the supervisors.

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribe, religion and disability which does not impair ability to discharge duties.

Training

Capacity building remains fundamental and a core function for the bank staff. A number of trainings were conducted including Branch Operations Management, Change Management, Risk Management, Delinquency Management, Customer Care, Microfinance Management Course, Small Enterprise Analysis, safeguarding policies and procedures, Psycho-social support, and social performance management.

Medical assistance

The Bank took over the full cost for medical insurance scheme in 2017, which covers all staff. The Bank plans to continue adding employees' dependents gradually.

(Q) WELFARE OF EMPLOYEES (Continued)

Retirement benefits

All eligible employees are members of the National Social Security Fund (NSSF). The Bank contributes 10% of the employees' gross salary and the employee contributes 5%.

The NSSF is a defined contribution scheme with BRAC Uganda Bank Limited having no legal or constructive obligation to pay further top-up contributions

(R) AUDITOR

The Bank's external auditor, Ernst & Young, being eligible for reappointment has expressed willingness to continue in office in accordance with Section 167(2) of the Companies Act of Uganda, and Section 62(1) of the Financial Institutions Act 2004 (as amended 2016).

(S) APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the directors at a meeting held on 21 March 2023.

~~By order of the Board~~

**AF MPANGA ADVOCATES
COMPANY SECRETARY**

Signed:

SECRETARY

BRAC UGANDA BANK LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR YEAR ENDED 31 DECEMBER 2022

The Companies Act, 2012 of Uganda requires the Directors to prepare financial statements for each financial year that present fairly the state of financial affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the state of the financial affairs of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, 2012 of Uganda and the Financial Institutions Act, 2004 (as amended). The directors are of the opinion that the financial statements present fairly the state of the financial affairs of the Bank and of its financial performance in accordance with International Financial Reporting Standards and have been prepared in the manner required by the Companies Act, 2012 of Uganda and the Financial Institutions Act, 2004 (as amended). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


The directors have made an assessment of the ability of the Bank to continue as going concern and have no reason to believe that the business will not be a going concern for at least the next twelve months from the date of this statement.

The auditor is responsible for reporting on whether the financial statements present fairly, in all material respects, the financial position of BRAC Uganda Bank Limited as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2012, the Financial Institutions Act, 2004, as amended by the Financial Institutions (Amendment) Act, 2016 and Financial Institutions Regulations, of Uganda.

Approval of the financial statements

The financial statements of BRAC Uganda Bank Limited, as identified in the first paragraph, were approved by the Board of Directors on 21 March 2023, and were signed on its behalf by:


.....
Chairperson, Board of Directors


.....
Managing Director


.....
Director

.....
Company Secretary

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF BRAC UGANDA BANK LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

We have audited the financial statements of BRAC Uganda Bank Limited (the "Bank") set out on pages 14 to 83, which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BRAC Uganda Bank Limited as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2012, the Financial Institutions Act, 2004, as amended by the Financial Institutions (Amendment) Act, 2016 and Financial Institutions Regulations, of Uganda.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)

Key Audit Matter	How the matter was addressed in the audit
Expected credit loss on loans and advances to customers	
<p>As disclosed in note 15 to the financial statements, the Bank had Expected Credit Losses of Ushs 3.54 billion as of 31 December 2022 (2021: Ushs 12.96 billion).</p> <p>The expected credit losses are based on a forward-looking approach that recognizes impairment loss allowances in accordance with IFRS 9 Financial Instruments. The estimation of expected credit losses requires the Bank to make significant judgements in the consideration of the following variables:</p> <ul style="list-style-type: none"> Allocation of loans to customers to stages 1, 2 and 3 in accordance with IFRS 9 based on: <ul style="list-style-type: none"> Credit exposures for which there has been a significant increase in credit risk since initial recognition, and for which a loss allowance is recognised over the remaining life of the exposure (lifetime ECL); Credit exposures for which there has been no significant increase in credit risk, and for which a loss allowance is recognised for default events that are possible within the next 12-months (12-month ECL). Stratification of assets under different credit portfolio on the basis of the associated credit risk. Assessment of the Probability of Default (PD) and the Loss Given Default (LGD). The application of historical and forward-looking information, including macro-economic factors in the assessment of the PD. Assessment and forecast of expected future cash flows from impaired (stage 3) loans and advances to customers and assessment of the financial condition of the counterparty, estimated recoverability and collateral realization. Application of additional overlay adjustments to reflect factors that are not considered in the applied expected credit loss models. <p>Due to the significance of the amounts and significant judgements and related estimation uncertainty involved, the assessment of ECLs has been considered a key audit matter. The complexity of these estimates require management to prepare adequate disclosures to explain the key judgments and the key inputs into the ECL computations.</p> <p>The accounting policies and related disclosures are in notes 3(a), 3(p) (vii), 15 and 31.</p>	<p>Our audit procedures included, but were not limited to, the following:</p> <ul style="list-style-type: none"> Assessed the accounting policies for compliance with IFRS 9 requirements; Evaluated the ECL models including whether the assumptions applied, and the functioning and application of the models were in accordance with IFRS 9; Evaluated the allocation of loans and advances to customers to stages 1, 2 and 3 for compliance with IFRS 9 basing on the performance of the loans and the available information; Evaluated the assumptions made to factor expected future cash flows into the ECL computations, considering market conditions, and the post-reporting date performance of the loan facilities; Evaluated the reliability of data sources, including collateral valuation, used in the ECL calculations. This included reviewing a sample of loan files to check, where appropriate, if the inputs agreed to the supporting documentation. Assessed whether disclosures made in the financial statements agreed to the audited balances and information, and whether they were in accordance with IFRS 9.

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)

Other information

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information..

Our opinion on the financial statements does not cover the other information and we 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 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 on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2012, the Financial Institutions Act, as amended by the Financial Institutions (Amendment) Act, 2016 and Financial Institutions Regulations of Uganda, and for such internal control as the 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, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Bank'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 Bank 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 ON OTHER LEGAL REQUIREMENTS


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

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

The Engagement Partner on the audit resulting in this independent auditor's report is Freda Kaheru Agaba – P0531.


Ernst & Young
Certified Public Accountants of Uganda
Kampala


29 April 2023


Freda Kaheru Agaba
Partner

BRAC UGANDA BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 Ushs '000	2021 Ushs '000
Interest income on loans and advances	5	78,243,665	77,249,729
Other interest income	6	4,824,593	4,536,547
Interest expense on borrowings	7(a)	(9,613,082)	(12,456,987)
Other finance costs	7(b)	(7,081,360)	(7,566,395)
Net Income from service charge		66,373,816	61,762,894
Membership fees and other charges	8	8,514,579	4,988,003
Net finance income	9	(507,528)	94,264
Net trading income		74,380,867	66,845,161
Expected credit loss on financial assets	16	(83,754)	(1,207,277)
Operating income after impairment charges		74,297,113	65,637,884
Grant income	27(e)	1,986,938	1,836,293
Staff costs	10	(39,700,257)	(37,136,454)
Other operating expenses	11	(27,398,606)	(21,877,550)
Depreciation of property and equipment	19	(4,164,571)	(4,177,395)
Amortization of software	21	(875,255)	(735,678)
Depreciation of right of use assets	22(a)	(2,372,724)	(2,329,098)
Profit before tax		1,772,638	1,218,002
Income tax charge	12(a)	(722,913)	(534,076)
Net profit for the year		1,049,725	683,926
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		1,049,725	683,926

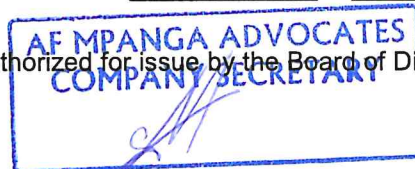
BRAC UGANDA BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 Ushs '000	2021 Ushs '000
ASSETS			
Cash and balances with the central bank	13	2,409,526	2,666,322
Deposits and balances due from banks	14	67,810,646	36,410,270
Loans and advances to customers	15	149,736,356	143,669,606
Other assets	18	3,241,776	2,662,423
Related party receivable	17(a)	2,018,278	2,222,811
Income tax recoverable	12(c)	41,911	81,350
Deferred tax asset	12(b)	8,797,321	9,458,625
Property and equipment	19	9,393,084	12,373,353
Right of use of asset	22(a)	9,757,322	11,022,430
Capital work in progress	20	2,260,635	2,563,122
Intangible assets	21	7,454,612	5,850,631
Total assets		262,921,467	228,980,943
LIABILITIES AND EQUITY			
Liabilities			
Loan security fund	23	30,757,363	30,946,832
Deposits from customers	24	64,101,856	65,676,141
Related party payables	17(b)	2,860,208	39,344
Borrowings	25	89,365,377	59,293,576
Other liabilities	26	8,001,287	5,717,663
Donor funds	27	4,509,928	4,222,048
Lease liabilities	22(d)	11,413,937	12,223,553
Total liabilities		211,009,956	178,119,157
Equity			
Share capital	28	54,421,880	54,421,880
Accumulated losses	28	(3,092,313)	(3,560,094)
Regulatory credit risk reserve	35	581,944	-
Total equity		51,911,511	50,861,786
Total liabilities and equity		262,921,467	228,980,943


The financial statements on pages 14 to 83 were approved and authorized for issue by the Board of Directors on 21 March 2023 and were signed on its behalf by:


 Managing Director


 Chairperson, Board of Directors



Company Secretary


 Director

BRAC UGANDA BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

Note	Share capital Ushs '000 28	Accumulated losses Ushs '000 28	Proposed dividends Ushs'000	Regulatory credit risk reserve Ushs'000 35	Total equity Ushs'000
At 1 January 2021					
Total comprehensive income for the year	43,000,000	(4,244,020)	-	-	38,755,980
Share capital received	11,421,880	683,926	-	-	683,926
At 31 December 2021	54,421,880	(3,560,094)	-	-	50,861,786
At 1 January 2022	54,421,880	(3,560,094)	-	-	50,861,786
Transfer to regulatory credit risk reserve	-	(581,944)	-	581,944	-
Total comprehensive income for the year	-	1,049,725	-	-	1,049,725
At 31 December 2022	54,421,880	(3,092,313)	-	581,944	51,911,511

The notes set out on pages 18 to 83 form an integral part of these financial statements.

BRAC UGANDA BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

Note	Share capital Ushs '000 28	Accumulated losses Ushs '000 28	Proposed dividends Ushs'000	Regulatory credit risk reserve Ushs'000 35	Total equity Ushs'000
At 1 January 2021	43,000,000	(4,244,020)	-	-	38,755,980
Total comprehensive income for the year	-	683,926	-	-	683,926
Share capital received	11,421,880	-	-	-	11,421,880
At 31 December 2021	54,421,880	(3,560,094)	-	-	50,861,786
At 1 January 2022	54,421,880	(3,560,094)	-	-	50,861,786
Transfer to regulatory credit risk reserve	-	(581,944)	-	581,944	-
Total comprehensive income for the year	-	1,049,725	-	-	1,049,725
At 31 December 2022	54,421,880	(3,092,313)	-	581,944	51,911,511

The notes set out on pages 18 to 83 form an integral part of these financial statements.

BRAC UGANDA BANK LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 Ushs '000	2021 Ushs '000
Operating activities			
Net cash flows from operating activities	29	<u>(17,617,916)</u>	<u>17,605,692</u>
Investing activities			
Acquisition of property and equipment	19	(1,195,653)	(1,561,243)
Acquisition of soft ware	21	(2,479,236)	(88,061)
Proceeds from disposal of assets		67,223	-
Transfer from work in progress	20	2,779,189	-
Investment in work in progress	20	<u>(2,476,702)</u>	<u>(825,991)</u>
Net cash flows used in investing activities		<u>(3,305,179)</u>	<u>(2,475,295)</u>
Financing activities			
Receipts from borrowings and managed funds during the year	25(b)	71,629,471	19,026,354
		(42,545,557)	(70,011,280)
Loan repayments during the year	25(b))
Principal repayment of lease liabilities	22(c)	(2,235,837)	(2,381,483)
Loan arrangement fees		(237,523)	-
Donor funds transfer to BRAC NGO	27(d)	(356,379)	(461,206)
Proceeds from issued share capital	28	-	11,421,880
	27(b)		
Receipts of donor funds	& (c)	<u>2,631,197</u>	<u>1,389,834</u>
Net cash flows from/ (used in) financing activities		<u>28,885,372</u>	<u>(41,015,901)</u>
			<u>(25,885,504)</u>
Net increase/ (decrease) in cash and cash equivalents		<u>7,962,277</u>	<u>)</u>
Cash and cash equivalents at 1 January		15,008,845	40,832,953
			(25,885,504)
Net increase/ (decrease) in cash and cash equivalents		7,962,277)
Effects of movement in exchange rates		<u>(528,687)</u>	<u>61,396</u>
Cash and cash equivalents at 31 December	30	<u>22,442,435</u>	<u>15,008,845</u>
Additional information relating to cash flows from interest paid and income tax:			
Income taxes paid	12(c)	(22,170)	(752,039)
Interest paid on borrowings	25(b)	(8,387,671)	(13,647,727)
Interest paid - leases	22(c)	(1,283,960)	(1,212,441)
Interest received	5&6	<u>83,068,258</u>	<u>81,786,276</u>

The notes set out on pages 18 to 83 form an integral part of these financial statements.

1. THE REPORTING COMPANY

BRAC Uganda Bank Limited a company limited by shares was incorporated on 06 June 2017 with BRAC International Holdings B.V as the majority shareholder and acquired/assumed the business, assets and liabilities of BRAC Uganda Microfinance Ltd (by guarantee) with effect from 01 January 2018 following a re-organization of the company limited by guarantee.

On 07 March 2019, BRAC Uganda Bank Limited was awarded a license by Bank of Uganda authorizing the company to operate as a credit institution. Therefore, in addition to the lending, the company also accepts call and time deposits.

BRAC Uganda Bank Limited's vision is in line with the vision for BRAC Bangladesh that they develop into a just, enlightened, healthy and democratic society free from hunger, poverty, environmental degradation and all forms of exploitation based on age, sex and ethnicity. In order to achieve this vision, BRAC uses a comprehensive approach to poverty reduction which strategically links to programs in Economic Development (Microfinance), Health, Education and Social Development, Human Rights and Services to create and protect the livelihoods of poor people.

BRAC's business model strongly reflects its philosophy, the core elements of the business model are BRAC's community outreach –based delivery methodology and its unwavering focus on borrowers at the poorer end of the poverty spectrum. These two principles – which distinguish BRAC Uganda Bank Limited from other microfinance operators in the world are apparent in the way BRAC has designed its operations.

The company prior to incorporation in 2017 was a component of BRAC Uganda which was first incorporated as BRAC Foundation in January 2006 and commenced its business in June 2006. In March 2007, the name was changed to BRAC through the registry of companies. Later the Microfinance and Non-Microfinance Programs got incorporated as independent companies in August 2008 and September 2010 respectively.

BRAC begun its work in Uganda in June 2006, it chose to work in Uganda because of the opportunities to make a significant difference in a post-conflict country with high poverty and fertility rates as well as demonstrate the potential of its "microfinance multiplied" approach to other institutions in the microfinance industry in the world.

2. BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), and in the manner required by the Companies Act, 2012 Laws of Uganda, and the Financial Institutions Act 2004 (as amended 2016) Laws of Uganda.

(i) Basis of measurement

The financial statements are prepared under both the historical cost convention and fair value basis for Deferred staff expense (Arising from fair value of staff loans) (refer to note 18).

(ii) Functional and presentation currency

Except where otherwise stated, these financial statements are presented in thousands of Uganda shillings (Ushs '000), which is the Bank's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Use of estimates and judgment

The preparation of the financial statements is in conformity with IFRS which requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and the future periods if the revision affects both current and future periods. The estimates and associated assumption are based on historical experiences, the results of which form the basis of making the judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from these estimates.

Management identifies all significant accounting policies and those that involve high judgment and in particular the significant areas of estimation and un-certainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are:

(i) Impairment

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank regularly reviews its loan portfolio and other assets and makes judgments in determining whether expected credit losses should be recognized. The methodology and assumptions used for estimating both the expected credit losses and forward-looking factors are reviewed regularly to reduce any differences between loss estimates and actual loss experience. (Refer to notes 15 and 31 for further details).

(ii) Provisions and contingent liabilities

A provision is recognized for an obligation as a result of past events, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. For contingent liabilities included in the financial statements see note 40.

(iii) Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Bank has Ushs32.4 billion (2021: Ushs36.2 billion) of tax losses carried forward. These losses relate to operational losses occasioned by the impact of the COVID 19 pandemic on the Bank operations in 2020. With the fading of the COVID 19 effects from the economy, the directors are optimistic that chances of the 2020 events leading to the loss position reoccurring are minimal. Therefore, in its assessment, the Bank has the ability to generate taxable profits and utilize the deferred tax asset in the foreseeable future. Further details on taxes are disclosed in Note 12.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Use of estimates and judgment (Continued)

(iv) Leases

IFRS 16 states that one has the right to direct how and for what purpose the asset is used throughout its period of use or the relevant decisions about use are pre-determined and one has the right to operate the asset throughout the period of use without having the right to change these operating instructions. The right-of-use (ROU) asset involves estimating the lease term and the discount rate.

The Lease term is the non-cancellable period and any optional renewal periods if the Bank reasonably with certainty exercises and periods after optional termination date if lessee reasonably certain not to terminate. The bank therefore appropriately assesses the possibility/option to renew the contract which is a key input in the lease computation.

The Bank opts for the incremental borrowing rate, as the Bank has several borrowings to finance its activities and therefore exercises judgement in computation of the rate.

(v) Useful lives of property and equipment

Items of property and equipment are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

b) Leases

IFRS 16 introduces significant changes to leases accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a Right of Use asset and a Lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

(i) With the Bank as lessee

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

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the bank is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the bank's incremental borrowing rate is used. For leases that contain non-lease components, the bank allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

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

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

All right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liabilities. Depreciation is calculated using the straight-line method to write-down the cost of each asset to its residual value over its estimated useful life. If the ownership of the underlying asset is expected to pass to the bank at the end of the lease term, the estimated useful life would not exceed the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Leases (Continued)

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

(ii) Short-term leases and leases of low-value assets

The Bank elected not to recognise right of use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) Extension options

Some leases of office premises contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

c) Property and equipment

i) Recognition and Measurement

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying value of property and equipment and recognized net with other income in profit or loss.

ii) Depreciation

Depreciation is recognized in profit or loss and calculated to write off the cost of the property and equipment on a straight basis over the expected useful lives of the assets concerned, and intangible assets on a straight-line basis.

The estimated depreciation rates for the current and comparative periods are as follows: -

	Percentage
Motor vehicles, motorcycles, and bicycles	20%
Furniture and Fixtures	12.5%
Equipment and computers	20%
Core banking system	10%
Other Intangibles	20%
Right of Use Asset	The shorter of the lease term and the useful life of the lease.

*The other intangibles relate to the Teammate Audit software, Human Resource Management system (HRM System), Short Message Services Integration (SMS), Enterprise Service Bus (ESB), Credit Reference Bureau (CRB) installation services and Agent Banking.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property and equipment (Continued)

Management and directors review the depreciation methods, residual value and useful life of an asset at the year end and any change considered to be appropriate in accounting estimate is recorded through the income statement.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the operating result for the reporting period.

d) Foreign currency transactions

Transactions in foreign currencies are translated to Ugandan Shilling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ugandan Shilling at the spot rate on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ugandan Shilling at the foreign exchange rate ruling at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Ugandan Shilling at foreign exchange rates ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognized in the income statement.

e) Other assets

Other assets comprise of prepayments, deposits and other receivables which arise during the normal course of business; they are carried at original invoice amount less provision made for expected credit losses. A provision for impairment of trade receivable is established by estimating the probability of default and incorporating forward looking factors.

f) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity at inception of the contract and include: cash in hand, deposits held at call with the Bank, net of the Bank overdraft facilities subject to sweeping arrangements

Investments with a longer maturity at acquisition do not become cash equivalents once their remaining maturity period falls to three months.

g) Provisions and other liabilities

A provision is recognized if, as a result of a past event, BRAC Uganda Bank Limited has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Other accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

h) Taxation

Income tax

Current income tax is the expected tax payable on taxable income for the year, using tax rates enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Taxation (Continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Income tax expense comprises of current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in Other Comprehensive Income.

i) Revenue recognition

Revenue is recognized on an accrual basis.

(i) Interest income on loans and advances

Interest income is recognized in the Statement of Comprehensive Income on accrual basis using the effective interest method.

Interest income includes the amortization of any discount at premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

(ii) Membership fees and Other charges

Membership fees and other charges are recognized on an accrual basis when a customer obtains control of the services.

(iii) Other Income

Other income comprises interest from short term deposits, gains less losses related to trading assets and liabilities, and includes gains from disposal of (BRAC Uganda Bank Ltd) assets and all realized and unrealized foreign exchange differences.

Interest income on (BRAC Uganda Bank Ltd) deposits is earned on an accrual basis at the agreed interest rate with the respective financial institution.

j) Grants

(i) Donor Grants

All donor grants received are initially recognized as either deferred income at fair value and recorded as either liabilities or equity in the grants received in advance account upon receipt in accordance with IAS 20.

The portion of the grants utilized to purchase property and fixed assets are classified as deferred income and subsequently the portion of the depreciation expense of the same assets for the period is recognized in the statement of comprehensive income as grant income.

The portion of the grants utilized to reimburse microfinance program related expenditure, are recognized as grant income for the period in the statement of comprehensive income.

The portion of the grants utilized to disburse Bank loans, are transferred as deferred income in loans to Bank members.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Grants (Continued)

Donor grants received in kind, through the provision of gifts and /or services, are recorded at fair value (excluding situations when BRAC Uganda Bank Limited may receive emergency supplies for onward distribution in the event of a disaster which are not recorded as grants).

Grant income is classified as temporarily restricted or unrestricted depending upon the existence of donor-imposed restrictions. For completed or phased out projects and programs, any unutilized amounts are dealt with in accordance with consequent donor and management agreements.

For ongoing projects and programs, any expenditures yet to be funded but for which funding has been agreed at the end of the reporting period is recognized as Grants receivable.

(ii) Grant income

Grant income is recognized on a cash basis to the extent that BRAC Uganda Bank Limited fulfills the conditions of the grant. This income is transferred from the deferred grant received from Donors and recognized as income in the statement of comprehensive income.

For donor grants restricted to funding procurement fixed assets, grant income is recognized as the amount equivalent to depreciation expenses charged on the fixed asset.

k) Loans and borrowings

Loans and borrowings are recognized initially as the proceeds are received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between the proceeds and the redemption value is amortized to the income statement over the period of the borrowings.

l) Managed funds

The Bank elected to recognize the funds under fiduciary management as part of assets and the corresponding liability as well.

m) Employee benefits

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. The Bank does not operate any retirement benefit fund. However, severance pay is provided for in accordance with the Ugandan statute. The Bank also operates an employee bonus incentive scheme. The provision for employee bonus incentive is based on a predetermined Bank policy and is recognized in other accruals. The accrual for employee bonus incentive is expected to be settled within 12 month.

n) Contingent liabilities

The Bank recognizes a contingent liability where it has a possible obligation from past events, the existence of which will be confirmed only by the occurrence of one or more uncertain events not wholly within the control of the Bank, or it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

o) Related party transactions

Related parties comprise directors, subsidiaries of BRAC International and key management personnel of the Bank and companies with common ownership and/or directors.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Financial assets and financial liabilities.

i) Recognition and initial measurement

The Bank initially recognizes loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice.
- In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Financial assets and financial liabilities (continued).

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Assessment of whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan.
- the fair value of the collateral relative to the amount of the secured financial asset.
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral.
- whether the borrower is an individual or a substantive operating Bank or is a special purpose Bank.
- the Bank's risk of loss on the asset relative to a full recourse loan.
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying asset.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Financial assets and financial liabilities (continued).

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset.

and

- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for Write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability. If the modification of a financial liability is not accounted for as derecognition, then the amortized Cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Financial assets and financial liabilities (continued)

Derecognition other than for substantial modification

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Where an existing financial liability is replaced by another from the same lender of substantially different terms, or the terms of an existing liability are modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset.
- Or
- It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Bank has retained.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

vi. 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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Financial assets and financial liabilities (continued).

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

vii. Impairment

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments.
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables;

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

ECL for exposure in stage 1: are calculated by multiplying the 12 months PD by LGD and EAD

Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the historical recovery rates of claims against counter parties.

The LGD model considers the structure and recovery cost of any collateral that is integral to the financial asset. The LGDs are calculated on a discounted cashflow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counter party and potential change to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is the gross carrying amount at the time of default.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Financial assets and financial liabilities (continued).

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

For portfolio in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter the bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Financial assets and financial liabilities (continued).

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision and;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

q) New and amended standards and interpretations

Amendments and interpretations listed below apply for the first time in 2022, but do not have an impact on the financial statements of the Bank. The Bank has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective

Effective for annual periods beginning on or after 1 January 2022

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time Adopter
- AIP IAS 41 Agriculture – Taxation in fair value measurements

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) New and amended standards and interpretations issued but not yet effective

(i) New and amended standards and interpretations issued but not yet effective

The following new International Financial Reporting Standards together with their Interpretations had been published at the date of preparation of the accompanying Financial Statements but are not mandatory as of December 31, 2022. Although in some cases the International Accounting Standards Board ("IASB") allows early adoption before their effective date, the Bank has not proceeded with this option for any such new standards.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Other amendments issued but not yet effective that are not expected to have a material impact on the Bank's financial statements include:

- IFRS 17 Insurance Contracts (effective for reporting periods beginning on or after 1 January 2023)
- Definition of Accounting Estimates - Amendments to IAS 8 (effective for annual periods beginning or after 1 January 2023)
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (effective for annual periods beginning or after 1 January 2023)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 (effective for annual periods beginning or after 1 January 2023)
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 (effective for annual periods beginning or after 1 January 2024)
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (effective for annual periods beginning or after 1 January 2024)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective date postponed indefinitely)

4. GOING CONCERN

As at 31 December 2022, the Bank was not compliant with debt covenants: Citibank, Bank of Africa, SOLUTI and Stitching Oxfam Novib. These had a total combined outstanding amount of Ushs 27,507,587 as at year-end. The consequence for the non-compliance is that the Bank may be compelled to pay the outstanding amounts on demand thereby resulting into contraction of the Bank's cash reserves which may further impair the Bank's ability to grow its loan book, meet its operational requirements and /or comply with the Bank of Uganda liquidity and leverage ratios.

The Bank's directors have made an assessment of the Bank's ability to continue as a going concern and are confident that the above matters will not have an impact on the Bank's ability to continue as a going concern and that the Bank will have the resources necessary to continue in business for the foreseeable future. This assessment is based on the following factors:

The Bank's management engaged the lenders and received approval of waivers for the non-compliance.

The directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

5. INTEREST INCOME ON LOANS AND ADVANCES

Interest income calculated using the effective interest method.

	2022	2021
	Ushs '000	Ushs '000
Group loans	55,884,670	58,399,175
Small enterprises program	18,713,469	15,603,355
Agriculture group loans	649	29,630
Agriculture line of credit	11,001	24,134
Empowerment and Livelihood of Adolescents (ELA)	3,856	273,629
Staff loan	282,803	135,281
Community Health Promoters (CHP)	393	169
Loan appraisal fees	3,346,824	2,784,356
	78,243,665	77,249,729

6. OTHER INTEREST INCOME

Other interest income calculated using the effective interest method

	2022	2021
	Ushs '000	Ushs '000
Interest income on current accounts	498,682	421,767
Interest income from wallet to bank	3,572	-
Interest income on deposits with banks	4,322,339	4,114,780
	4,824,593	4,536,547

7. (a) INTEREST EXPENSE ON BORROWINGS

Interest expense calculated using the effective interest method

Lender	2022	2021
	Ushs '000	Ushs '000
Bank of Africa	1,162,806	670,109
Oiko Credit	1,454,795	373,759
Kenya Commercial Bank (KCB)	1,092,907	-
FMO Entrepreneurial Development Bank	308,148	2,875,152
Triodos Investment Management (TIM)	297,254	2,913,447
Global Partnership (GP)	154,883	1,428,326
aBi Trust	1,872,484	1,497,774
Stichting Oxfam Novib	713,169	-
BRAC International	80,704	307,473
Citibank Uganda	1,062,222	1,691,886
Uganda Energy Credit Capitalization Company (UECCC)	124,383	200,000
SOLUTI	843,048	497,096
EADB	446,279	1,965
	9,613,082	12,456,987

7. (b) OTHER FINANCE COSTS

Other finance costs calculated using the effective interest method

	2022	2021
	Ushs '000	Ushs '000
Service charge	363,853	766,934
Interest expense on voluntary savings	5,100,621	5,019,954
Interest on lease liability (note 22(b))	1,602,565	1,626,038
Withholding tax on interest	14,321	153,469
	7,081,360	7,566,395

The service charge relates to loan arrangement fees for borrowings.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

8. MEMBERSHIP FEES AND OTHER CHARGES

Fees and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major service lines below as presented below.

	2022	2021
	Ushs '000	Ushs '000
Membership fee	238,637	317,577
Loan application fee	170,970	147,216
Other operating income	2,065,292	505,531
Gain on disposal	55,872	-
Recharge intercompany costs	205,364	297,388
Ledger fees	2,747,997	2,898,264
Other fees from banking operations	69,540	34,002
Administrative fee from credit life insurance	263,370	122,013
Income from written off loans	2,661,687	634,050
Sale of passbooks	35,850	31,962
	8,514,579	4,988,003

All fees and commission income and expense arise from financial assets and financial liabilities that are not at fair value through profit or loss.

Performance obligations

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Category A	These are transactional fees based on revenue that mainly comprise of but not limited to ledger fees.	<ul style="list-style-type: none"> ▪ Enforceable arrangement with customer exists. ▪ Performance obligation (PO) – the Bank provides account transaction services ▪ Transaction price – monthly fees in line with the contractual agreement. ▪ Allocation of price to PO – single performance obligation, no allocation necessary. ▪ PO satisfied – Revenue is currently recognised at the end of the month, for the services provided during that month (operational efficiency).
Category B	These are membership fees charged to customers.	<ul style="list-style-type: none"> ▪ Enforceable arrangement with customer exists. ▪ Performance obligation (PO) – the Bank admits the client as a member eligible for a loan. ▪ Transaction price – annual fees in line with the contractual agreement. ▪ Allocation of price to PO – single performance obligation, no allocation necessary. ▪ PO satisfied – At a point in time when the individual has been admitted as a member.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

8. MEMBERSHIP FEES AND OTHER CHARGES (Continued)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Category C	These are transactional fees based on revenue that comprise of sale of pass books and other fees from banking operations.	<ul style="list-style-type: none"> Enforceable arrangement with customer exists. Performance obligation (PO) – the Bank sells pass books to customers and charges fees for account transactions. Transaction price – fee charged in terms of the arrangement with customer at point of transaction Allocation of price to PO – single performance obligation, no allocation necessary. PO satisfied – At a point in time when the transaction is processed.

9. NET FINANCE INCOME

	2022 Ushs '000	2021 Ushs '000
Realized foreign currency gain	117,652	63,536
Unrealized foreign currency gain	360,447	875,493
Realized foreign currency loss	(96,493)	(30,668)
Unrealized foreign currency loss	(889,134)	(814,097)
	<u>(507,528)</u>	<u>94,264</u>

The exchange gains/ (losses) arise from translation of foreign currency transactions and revaluations of foreign currency denominated assets and liabilities to Uganda Shillings. Financial assets and liabilities denominated in foreign currencies are translated to Ushs at the rate ruling at reporting date.

10. STAFF COSTS

	2022 Ushs '000	2021 Ushs '000
Salaries	28,789,201	27,698,316
Special occasion	2,159,344	1,106,468
Contribution to defined contribution plan (NSSF - Employer)	3,104,777	2,785,104
Insurance for staff	1,748,949	1,528,553
Staff meals	2,599,681	2,532,005
Recruitment and relocation expense	388,344	426,825
Overtime	11,452	8,463
Group life insurance	72,391	101,642
Payment in lieu of notices	48,986	93,976
Provident fund	44,808	85,865
Staff training and development	491,615	307,436
Staff loan benefit	7,091	37,733
Leave days accrual	132,365	339,278
Home leave expense	101,253	84,790
	<u>39,700,257</u>	<u>37,136,454</u>

*Special occasion expense relates to the contractual 13th cheque pay to staff which equivalent to 100% of one's monthly salary.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

11. OTHER OPERATING EXPENSES

	2022	2021
	Ushs '000	Ushs '000
Occupancy expenses (11a)	5,430,168	5,344,260
Publication, advertising, and marketing costs	579,686	374,580
Travel and transportation	7,529,887	6,495,413
Maintenance and general expenses	1,038,402	1,293,456
Printing and office stationery	1,850,303	1,428,663
Insurance for assets	52,153	46,327
Insurance for cash	56,229	92,523
Provision for WHT and insurance receivable	700,771	111,373
Software development and maintenance	2,581,829	1,732,733
Consultancy and legal services	711,022	2,147,560
Office equipment	291,568	158,019
Audit fees	209,980	205,197
Other tax expenses/licenses/penalties	40,342	518,360
Digitization costs	116,265	32,082
Provision for donations	93,296	53,120
Loan recovery costs	91,163	17,898
Governance/ board costs	464,619	415,038
Management fees	4,049,003	-
Communication costs	1,511,920	1,410,948
	27,398,606	21,877,550

11 (a) Occupancy expenses are analyzed as follows:

Short term lease expenses	1,966	12,987
Utilities	809,794	697,421
Office cleaning	424,095	407,469
Security	4,194,313	4,226,383
	5,430,168	5,344,260

12. TAXATION

12 (a) Income tax charge

	2022	2021
	Ushs '000	Ushs '000
Rental income tax	61,609	160,970
Under provision for deferred tax in prior years	-	80,023
Deferred tax charge (note 12 (b))	661,304	293,083
Income tax charge	722,913	534,076

The corporation tax rate is set at 30% (2021; 30%) of the profit/(loss) for the year as adjusted for tax purposes in accordance with the Income Tax Act Cap 340.

The tax charge on the Bank's profit/(loss) before tax differs from the theoretical amount that would arise using the basic tax rate as follows.

	2022	2021
	Ushs '000	Ushs '000
Profit before taxation	1,772,638	1,218,002
Tax calculated at 30% (2021:30%)	531,791	365,401
Tax effect of:		
Under provision for deferred tax in prior year	-	80,023
Rental income tax	61,609	160,970
Non-deductible expense and non-taxable income	129,513	(72,318)
Income tax charge/(credit) for the year	722,913	534,076

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

12. TAXATION (Continued)

12 (b) Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using the principal tax rate of 30% (2021;30%). The net deferred tax assets as at year-end was attributed to the following items: -

31 December 2022

	2021	Movement	2022
	Ushs '000	Ushs '000	Ushs '000
Property and equipment	2,262,842	(202,097)	2,060,745
Leases	(360,335)	(136,649)	(496,984)
Impairment	(725,060)	451,021	(274,039)
Other provisions	134,902	(412,361)	(277,459)
Unrealized foreign exchange loss	75,205	(158,606)	(83,401)
	(10,846,179)	1,119,996	(9,726,183)
Income tax losses carried forward	9)		
Net deferred tax asset @ 30%	(9,458,625)	661,304	(8,797,321)

*The other provisions include provision for WHT, insurance receivable and staff leave provisions.

31 December 2021

	2020	Under provision of deferred tax in prior years	Movement	2021
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Property and equipment	2,438,565	17,065	(192,788)	2,262,842
Right of use assets	(273,635)	(7,926)	(78,774)	(360,335)
Impairment	(717,859)	-	(7,201)	(725,060)
Other provisions	170,215	-	(35,313)	134,902
Unrealized foreign exchange gains	56,738	-	18,467	75,205
Income tax losses carried forward	(11,505,755)	70,844	588,692	(10,846,179)
Net deferred tax asset @30%	(9,831,731)	79,983	293,083	(9,458,625)

12 (c) Income tax recoverable

	2022	2021
	Ushs '000	Ushs '000
At 1 January	(81,350)	509,719
Charge for the period	61,609	160,970
Corporation tax paid during the year	-	(689,935)
WHT paid during the year	(22,170)	(62,104)
At 31 December	(41,911)	(81,350)

13 CASH AND BALANCES WITH THE CENTRAL BANK

	2022	2021
	Ushs '000	Ushs '000
Cash in hand	1,409,526	1,666,322
Balances with the central bank	1,000,000	1,000,000
	2,409,526	2,666,322

The expected credit losses on balances with the Central Bank has not been recognized in these financial statements as the amount is immaterial. There is no Bank of Uganda cash reserve requirement.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

14. DEPOSITS AND BALANCES DUE FROM BANKS

14(a) Deposits with other banks

	2022	2021
	Ushs '000	Ushs '000
Standard Chartered Bank	394,953	136,997
Bank of Africa	13,240,610	7,387,406
Centenary Bank	388,672	476,759
Equity Bank	100,094	96,666
DFCU Bank	8,820	7,185
Post Bank	176,145	131,674
Pride Microfinance Ltd	451	24,142
Tropical Bank	-	(28)
Stanbic Bank	4,656,254	4,146,827
Citibank	11,757	18,862
Kenya Commercial Bank	1,191,436	-
Deposits with other banks	20,169,192	12,426,490
ECL allowance	(136,283)	(83,967)
Net deposits with other banks	20,032,909	12,342,523

14 (b) Placements with other banking Institutions

	2022	2021
	Ushs '000	Ushs '000
Mercantile Bank	32,905,128	16,583,030
Pride Microfinance	6,264,126	2,571,836
Equity Bank	3,582,438	-
Opportunity Bank	5,351,075	5,076,613
Total	48,102,767	24,231,479
ECL allowance	(325,030)	(163,732)
Net placements with other banking institutions	47,777,737	24,067,747
	67,810,646	36,410,270

The maturity of the placements with other banks is analyzed as follows:

	2022	2021
	Ushs '000	Ushs '000
Within 3 months	15,153,599	7,837,145
After 3 months	32,624,138	16,230,602
Total	47,777,737	24,067,747

The weighted average effective interest rates on deposits due from the banks were 11% (2021:10.88%) per annum. The carrying book values of the deposits with the banks approximate their fair values.

14 (c) Movement in Expected Credit Losses

	Bank balances	Placements
	Ushs '000	Ushs '000
At 1 January 2021	96,819	259,757
Decrease for the year (Note 16)	(12,852)	(96,025)
At 31 December 2021	83,967	163,732
Increase during the year (Note 16)	52,316	161,298
At 31 December 2022	136,283	325,030

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

15 LOANS AND ADVANCES TO CUSTOMERS

15 (a) Loans and advances

	2022	2021
	Ushs '000	Ushs '000
Microfinance Group loans	107,461,966	114,787,711
Small Enterprises Program	50,588,218	47,265,274
Agriculture line of credit	5,188	64,949
Staff loan	2,322,760	1,977,896
CHP and ELA loans	26,905	574,847
Interest receivable	6,520,339	8,778,317
Suspended interest	(1,259,973)	(4,280,593)
Interest write-off	(11,842,607)	(12,446,425)
Gross loans and advances	153,822,796	156,741,976
Loan modifications	781,180	1,216,330
Deferred loan fees	(1,301,002)	(1,195,441)
Deferred staff expense	(24,022)	(129,812)
	153,278,152	156,633,053
Expected credit losses		
Stage 1	(89,368)	(15,428)
Stage 2	(16,238)	(8,836)
Stage 3	(3,436,990)	(12,939,183)
	(3,542,596)	(12,963,447)
Net loans and advances to customers	149,736,356	143,669,606

The weighted average effective interest rate on loans and advances to customers was 51.14% (2021: 47.22%) per annum. Loans and advances to customers are carried at amortized cost. The carrying values of the loans and advances to customers approximate their fair values.

	2022	2021
Highest loan amount (Ushs)	100,000,000	100,000,000
Lowest loan amount (Ushs)	100,000	100,000
Average loan term (weeks)	40	40
Total number of borrowers	157,667	163,202

The Bank did not advance any facilities exceeding 25% (2021: 25%) of core capital to a single person or group of related persons during the year.

15(b) Expected credit loss on loans and advances

The movement in the allowance for impairment for loans and advances to customers during the year was as follows:

	2022	2021
	Ushs '000	Ushs '000
At 1 January	12,963,447	21,657,634
Charge for the year	(565,010)	1,541,161
Loan write-off	(8,855,841)	(10,235,348)
At 31 December	3,542,596	12,963,447
Charge to profit or loss		
Net (decrease) increase in provisions	(565,010)	1,541,161
Modification loss/(gain) on loans and advances	435,150	(225,008)
Net charge to profit or loss (Note 16)	(129,860)	1,316,153

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

The gain on modification of financial assets arose due to restructuring of loans and advances due from the Bank's customers as a result of COVID-19. The Bank recalculated the gross carrying amount of the modified assets using the original effective interest rate and compared it to the original gross carrying amount. The difference resulted into a modification gain.

15(c) Sectoral analysis of loans and advances to customers

	2022	2021
	Ushs '000	Ushs '000
Trade	98,147,847	97,134,815
Agriculture	28,699,203	34,058,971
Business services	7,828,629	7,420,748
Manufacturing	7,039,811	6,419,564
Community, social & other services	4,808,206	4,423,440
Building, construction, and real estate	5,115,794	4,345,875
Personal loans and household loans	434,386	1,024,258
Transport and communication	824,129	827,390
Mining and quarrying	671,289	726,477
Electricity and water	39,882	171,688
Other services	213,620	188,752
	153,822,796	156,741,978

Impairment and provisioning policies

The Bank recognizes the allowance for expected credit losses on all loans and advances. The Bank at each reporting date, measures the loss allowance for all loans and advances at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

Measurement of Expected Credit Losses

The Bank measures the loss allowance on loans and advances at an amount equal to the 12-month or lifetime expected credit losses depending on whether or not the credit risk has increased significantly since initial recognition. The expected credit losses shall be determined as follows:

$$ECL = PD \times LGD \times EAD$$

Expected Credit Losses (ECL): The weighted average of credit losses with the respective risks of a default occurring as the weights.

Probability of Default (PD): This relates an estimate of the likelihood of default over a given time horizon.

Loss Given Default (LGD): This relates to an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

Exposure at Default (EAD): This is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected draw downs on committed facilities.

Further details on how the above parameters are determined are well stipulated in the Bank's loss provisioning process.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans and advances are categorized into the following grades:

Micro loans

Status	Days in arrears	Loan category
Stage 1	0-7	Performing
Stage 2	8-29	Performing with significant increase in credit risk
Stage 3:	Over 29	Non-performing

Non-micro loans

Status	Days in arrears	Loan category
Stage 1	0-29	Performing
Stage 2	30- 89	Performing with significant increase in credit risk
Stage 3:	Over 89	Non-performing

16. EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS – CHARGE TO PROFIT OR LOSS

	2022	2021
	Ushs '000	Ushs '000
Loans and advances (note 15 b)	(129,860)	1,316,153
Deposits with banks (note 14 c)	52,316	(12,852)
Bank balances (note 14 c)	161,298	(96,024)
	83,754	1,207,277

17. RELATED PARTY DISCLOSURES

The ultimate parent company is BRAC International Holdings BV, a company registered in the Netherlands. BRAC Uganda and BRAC Bangladesh are affiliate entities of the Bank. There are other companies that are related to the Bank through common shareholding with which the Bank had the following transactions:

17 (a) RELATED PARTY RECEIVABLES

	2022	2021
	Ushs '000	Ushs '000
BRAC International Holdings BV	670,169	650,541
BRAC Uganda NGO	1,348,109	1,572,270
	2,018,278	2,222,811

17 (b) RELATED PARTY PAYABLES

	2022	2021
	Ushs '000	Ushs '000
BRAC International Holdings BV	2,841,926	-
BRAC Bangladesh	18,282	39,344
	2,860,208	39,344

Related party payables/ receivables relate to intercompany transactions which bear no interest, are unsecured and due on demand. The fair value of these related party payables/receivables approximates their carrying amounts.

Related party receivables from BRAC Uganda NGO mainly relate to shared services with the entity, the expenses are met by the Bank and reimbursed by BRAC NGO. The payable to BRAC International BV holdings mainly relates to management fees for the services provided by BRAC International. The payable to BRAC Bangladesh relates to the expatriates' staff provident fund.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

17. RELATED PARTY DISCLOSURE (Continued)

17 (c) OTHER RELATED PARTY TRANSACTIONS DURING THE YEAR

i) Loans and advances to related party

	2022	2021
	Ushs '000	Ushs '000
To key management staff	9,315	109,289
	9,315	109,289
Interest earned on the loans	2	212

Loans and advances to customers as at 31 December 2022 include loans to Senior Managers (Heads of Departments) of Ushs 9 million (2021: Ushs 109 million). The collective impairment relating to employee loans was Ushs 14 (2021: Ushs 6). The fair value of loans and advances approximates their carrying amounts. The loans are secured, have a maximum loan term of 3 years and the average interest rate charged is 9% per annum.

ii) Key management compensation

Key management compensation includes Directors (executive and non-executive) and the members of senior management. The compensation paid or payable to key management for employment services is shown below:

	2022	2021
	Ushs '000	Ushs '000
Salaries and other short-term compensation	3,002,218	2,385,209

iii) Directors' remuneration

Fees for services of directors	299,389	352,241
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At 31 December 2022, there were no loans to directors and companies controlled by directors or their closely connected persons (2021: Ushs Nil).

18. OTHER ASSETS

	2022	2021
	Ushs '000	Ushs '000
Advance to suppliers	1,930,065	1,101,456
Prepaid rent	-	1,410
Prepaid insurance	1,446,684	1,404,852
WHT receivable	134,176	152,561
Provision for receivables*	(767,100)	(152,561)
Donor grants receivable	118,335	-
Employee receivables	134,616	77,559
Sundry debtors	245,000	-
Deferred staff expense (Arising from fair value of staff loans)	-	77,146
	3,241,776	2,662,423

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

19. PROPERTY AND EQUIPMENT

	Furniture Ushs '000	Equipment Ushs '000	Motor vehicles Ushs '000	Total Ushs '000
Cost				
At 1 January 2021	10,543,592	13,574,165	601,318	24,719,075
Additions	144,897	1,416,346	-	1,561,243
Disposal	(211,977)	(156,846)	-	(368,823)
At 31 December 2021	10,476,512	14,833,665	601,318	25,911,495
Additions	300,005	593,571	-	893,576
Capitalization of capital work in progress	1,252	300,825	-	302,077
Disposal	(879)	(37,180)	(44,000)	(82,059)
At 31 December 2022	10,776,890	15,690,881	557,318	27,025,089
Depreciation				
At 1 January 2021	3,636,387	5,494,706	400,500	9,531,593
Charge for the year	1,241,027	2,826,393	109,975	4,177,395
Accumulated depreciation on disposal	(80,269)	(90,577)	-	(170,846)
At 31 December 2021	4,797,145	8,230,522	510,475	13,538,142
Charge for the year	1,223,106	2,885,105	56,360	4,164,571
Accumulated depreciation on disposal	(766)	(25,942)	(44,000)	(70,708)
At 31 December 2022	6,019,485	11,089,685	522,835	17,632,005
Net carrying amount				
At 31 December 2022	4,757,405	4,601,196	34,483	9,393,084
At 31 December 2021	5,679,367	6,603,143	90,843	12,373,353

20. CAPITAL WORK IN PROGRESS

	Computer soft ware Ushs '000	Hardware Ushs '000	Branch refurbishment Ushs '000	Total Ushs '000
Cost				
At 1 January 2021	3,489,711	-	-	3,489,711
Additions	825,991	-	-	825,991
Transfer to intangible assets	(1,384,524)	-	-	(1,384,524)
Transfer to profit or loss	(368,056)	-	-	(368,056)
At 31 December 2021	2,563,122	-	-	2,563,122
Additions	1,518,990	944,571	13,141	2,476,702
Capitalized	(2,477,112)	(302,077)	-	(2,779,189)
At 31 December 2022	1,605,000	642,494	13,141	2,260,635

The items included in the capital works in progress relate to advance payments for purchase and leasing of fixed assets that include motor vehicles and leasing of printers, the software relates to mainly mobile banking and digital financial services channel integrators.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

21. INTANGIBLE ASSETS

	2022	2021
	Ushs '000	Ushs '000
Cost		
At 1 January	7,825,361	6,354,221
Additions	2,124	88,061
Capitalization of capital work in progress	2,477,112	1,384,524
Write off	-	(1,445)
At 31 December	10,304,597	7,825,361
Amortisation		
At 1 January	1,974,730	1,239,654
Charge for the year	875,255	735,678
Write off	-	(602)
At 31 December	2,849,985	1,974,730
Net carrying amount		
At 31 December	7,454,612	5,850,631

The intangibles relate to the core banking system, Teammate Audit Software Human Resource Management system, SMS integration, Enterprise Serial Bus (ESB) and Credit Reference Bureau installation services.

22. LEASES

The Bank leases a number of branches and head office premises. The leases typically run for a period of 2-10 years, with an option to renew the lease after that date. Information about leases for which the Bank is a lessee is presented below.

(a) Right-of-use assets

Right-of-use assets relate to leased branches and office premises

	2022	2021
	Ushs '000	Ushs '000
Cost		
At 1 January	18,844,672	17,987,947
Additions	1,107,616	1,527,579
Termination of lease	-	(670,854)
At 31 December	19,952,288	18,844,672
Depreciation		
At 1 January	7,822,242	6,017,740
Charge for the year	2,372,724	2,329,098
Termination of lease	-	(524,596)
At 31 December	10,194,966	7,822,242
Carrying amount		
At 31 December	9,757,322	11,022,430

As at 31 December 2022, the future minimum lease payments under non-cancellable operating leases were as follows.

Maturity analysis – Contractual undiscounted cash flows

	2022	2021
	Ushs'000	Ushs'000
Less than one year	3,956,826	3,297,719
Between one and five years	10,262,983	13,544,177
More than five years	1,426,320	587,040
Total undiscounted lease liabilities at 31 December	15,646,129	17,428,936

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

22. LEASES (Continued)

(b) Amounts recognized in profit or loss

	2022	2021
	Ushs'000	Ushs '000
Leases under IFRS 16		
Interest on lease liability (Note 7(b))	(1,602,565)	(1,626,038)
Income from sub leasing right of use assets	205,364	297,388
Depreciation expense of right-of-use assets	(2,372,724)	(2,329,098)
Gain on termination of lease	-	98,631
Expenses relating to short term leases (Note 11(a))	1,966	12,987
	<u>(3,767,959)</u>	<u>(3,546,130)</u>

(c) Amounts recognized in the statement of cash flows

	2022	2021
	Ushs'000	Ushs '000
Interest expense payment	1,283,960	1,212,441
Principal repayment	2,235,837	2,381,483
Total cash outflow for leases	<u>3,519,797</u>	<u>3,593,924</u>

(d) Lease liabilities

As at 1 January	12,223,553	12,908,749
New leases	1,107,616	1,527,579
Accretion of interest	1,602,565	1,626,038
Termination of lease	-	(244,889)
Repayment of the principal portion	(2,235,837)	(2,381,483)
Repayment of interest	(1,283,960)	(1,212,441)
At 31 December	<u>11,413,937</u>	<u>12,223,553</u>

23. LOAN SECURITY FUND

	2022	2021
	Ushs '000	Ushs '000
Opening balance	30,946,832	33,159,712
Received during the year	24,419,808	10,775,245
Paid off	(24,609,277)	(12,988,125)
Closing balance	<u>30,757,363</u>	<u>30,946,832</u>

The Loan Security Fund acts as collateral to the Bank for the customers' loan obligations. This is computed as 10% of the customers' approved loan. In the event of any default, the clients forfeit all or part of the Loan Security Fund to the extent of the amount at risk. It is repayable on completion of the loan upon claim by the borrower. The fair value of loan security fund approximates the carrying amount.

24. DEPOSITS FROM CUSTOMERS

	2022	2021
	Ushs '000	Ushs '000
Savings accounts	17,955,251	13,820,536
Transaction accounts	2,125,339	2,279,531
Fixed deposits	44,021,266	49,576,074
	<u>64,101,856</u>	<u>65,676,141</u>

The weighted average effective interest rate on deposits from customers is 8% (2021: 6%) per annum.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

25. BORROWINGS AND MANAGED FUNDS

	2022	2021
	Ushs '000	Ushs '000
Borrowed funds		
Bank of Africa (ii)	8,021,300	1,503,692
Oiko Credit (xiv)	20,698,630	-
FMO Entrepreneurial Development Bank (vi)	-	3,875,795
Triodos Investment Management (vii)	-	3,872,698
Global Partners (viii)	-	1,935,399
aBi 2020 Limited (v)	26,755,424	9,851,631
BRAC International Senior debt (iv)	381,884	9,300,928
BRAC International Subordinated debt(iv)	550,237	498,704
Citi Bank (iii)	6,920,670	10,871,423
UECCC (ix)	-	4,000,000
SOLUTI (xii)	4,429,726	6,023,301
East African Development Bank (EADB) (xi)	4,101,690	1,994,465
Kenya Commercial Bank(xv)	8,926,990	-
Stichting Oxfam Novib (xiii)	8,135,891	-
Loan arrangement fees	(511,771)	(274,248)
Managed Funds		
Kiva (i)	954,706	629,667
Mastercard Foundation (x)	-	5,210,121
	89,365,377	59,293,576

i) Kiva

In November 2007, BRAC Uganda Bank Limited signed a hosting agreement with Kiva to obtain access to post on the website descriptions of businesses in need of debt capital as well as proposed terms for making loans to such businesses. This was with the hope of obtaining capital in the form of loans from the individuals and entities who also access Kiva website and the loan is interest free. The first loan tranche was received in December 2007.

During 2022 BUBL received USD 110,798 and repaid USD 25,975. The facility has an outstanding balance of USD 257,082 equivalent to Ushs.954,706,370. The loan has no security and there is no interest rate attached to it.

ii) Bank of Africa

In March 2019, BRAC Uganda Bank Limited obtained a loan from Bank of Africa amounting to Ushs 15 billion equivalent to USD 4,092,535 for a period of 3 years. Interest and principal is paid on a quarterly basis at a rate of 14% p.a. The loan is tagged to T-bill of 182 day and the outstanding balance was Ushs 1.5 billion which matured in March 2022. The loan was secured by a floating charge on BRAC Uganda Bank's loan portfolio.

In April 2022 the Bank received another loan of UGX 10 billion for the period of 3 years from Bank of Africa. Interest and principal is paid on a quarterly basis at a rate of 14% p.a. The loan is tagged to T-bill of 182 day and the outstanding balance is Ushs 8.02 billion. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio.

iii) Citibank Uganda

In January 2020, BRAC Uganda Bank Limited obtained a loan from Citi Bank amounting to Ushs 14.8 billion equivalent to USD 4,000,000 with a tenor of 4 years and a grace period of one year. Interest and principal is paid on a quarterly basis. The loan interest rate is tagged to T-bill of 182 day + 2.5% and the average interest rate for the 2022 was 11.32%. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio and the outstanding balance is Ushs 6.92 billion.

25. BORROWINGS AND MANAGED FUNDS (Continued)

iv) BRAC International Holdings BV (Subordinated debt)

In April 2020, the dividend that was outstanding to BRAC International Holdings BV (BIHBV) of USD 3.4 million was converted into a loan for a period of one year at an interest rate of 5% per annum and the loan is not secured. Interest and principal is paid on a semi-annual basis. During the year 2021 the loan was converted from senior debt to subordinated debt. Following the increase of the authorized share capital of the Bank, BIHBV was allotted a total of 559,618 shares equivalent USD 1,584,997 (UGX 5,596,180,000) which were paid for by offset from the subordinated debt. As at 31 December 2022 the facility has an outstanding subordinated balance of USD148,167 equivalent to Ushs 550,236,820.

v) aBi 2020 Limited

In October 2019, a loan agreement was signed between BRAC Uganda Bank Limited and aBi Finance limited amounting to Ushs 10 billion. The principal is repayable within 4 years and attracts an interest rate of minimum 12.8% pa with six months grace period for principal. The Company changed its name to aBi 2020 Limited in 2020. The amount was disbursed on the 1 October 2019. Principal and interest payments are made on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. This facility is tagged to 182Tb+2%. The outstanding loan balance is Ushs 6.5 billion.

In August 2022, a loan agreement was signed between BRAC Uganda Bank Limited and aBi finance limited amounting to Ushs 20 billion. The principal is repayable within 4 years and attracts an interest rate of minimum 11.60% pa with six months grace period for principal. Principal and interest payments are made on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. The outstanding loan balance is Ushs 20.25 billion.

vi) FMO Entrepreneurial Development Bank

In July 2017, BRAC Uganda Bank Limited obtained a loan from FMO, the loan agreement was for a total principal loan amount of USD 6 million for a period of 4 years and disbursed in 4 tranches. The first tranche of USD 1,600,000 was disbursed in July 2017 at an interest rate of 16.49% and the second tranche was disbursed in December 2017 of USD 1,000,000 at an interest rate of 15.10%. The final disbursements of Ushs 6.6 billion and 6.2 billion equivalent to USD 3,359,020 was drawn down in 2018 at an interest rate of 13.9% and 17% respectively. The loan principal repayments were to commence in June 2020 but the principal payment for June 2020 was deferred to June 2022 and booked as a separate tranche as per agreement at an interest rate of 17.49%. The outstanding loan balance was USD 1.1 million as at June 2022. The loan was not secured. The loan was fully paid in June 2022.

vii) Triodos Investment Management

In July 2017, BRAC Uganda Bank Limited obtained a loan from Triodos, the loan agreement was for a total principal loan amount of USD 6 million for a period of 4 years disbursed in 4 tranches. The first tranche of USD 1,600,000 was disbursed in July 2017 at an interest rate of 16.51% and the second tranche was disbursed in December 2017 of USD 1,000,000 at an interest rate of 15.57%. The final disbursements of Ushs 6.6 billion and Ushs 6.2 billion equivalent USD 3,359,020 were drawn down in 2018 at an interest rate of 14.9% and 18% respectively. The loan principal repayments were to commence in June 2020 but the principal payment for June 2020 was deferred to June 2022 and booked as a separate tranche as per the agreement at an interest rate of 16.77%. The outstanding loan balance was USD 1.1 million as at June 2022. The loan was not secured. The loan was paid off in June 2022.

viii) Global Partnership

In June 2017, BRAC Uganda Bank Limited obtained a loan from Global partners, the loan agreement was for a total principal loan amount of USD 2 million for a period of 4 years and disbursed in 4 tranches. The first tranche of USD 800,000 was disbursed in July 2017 at an interest rate of 16.63% and the second tranche was disbursed in December 2017 of USD 500,000 at an interest rate of 15.10%. The final disbursements of Ushs 3.3 billion and 3.1 billion equivalent to USD 1,679,510 were drawn down in 2018 at interest rates of 13.9% and 17% respectively. The loan principal repayments were to commence in June 2020 but the principal payment for June 2020 was deferred to June 2022 and booked as a separate tranche as per the agreement at an interest rate of 17.49%. The outstanding loan balance was Ushs. 1.9 billion. The loan was not secured. The loan was fully paid off in June 2022.

25. BORROWINGS AND MANAGED FUNDS (Continued)

ix) Uganda Energy Credit Capitalization Company (UECCC)

In December 2020, BRAC Uganda Bank Limited obtained a loan from UECCC amounting to Ushs 8 billion at an interest rate of 5% per annum for a period of 5 years with a one-year grace period. Interest and principal is paid on a quarterly basis. During 2020, the Bank drew down Ushs 4 billion. The loan was secured by a floating charge on BRAC Uganda Bank's loan portfolio. The outstanding balance of UGX 4 billion was fully repaid in 2022.

x) Mastercard Foundation

In July 2020, BRAC Uganda Bank Limited obtained managed funds from Mastercard foundation amounting to USD 1.47 million Equivalent Ushs 5.3 billion for one year; to facilitate refinancing of clients to help them recovery from the impact of the COVID – 19 pandemic on their businesses. After the second country lock down in 2021 by the government due to the pandemic, the repayment of these funds was deferred to March 2022 then to July 2022. The funds were fully paid off as at 31 December 2022.

xi) East African Development Bank

In December 2021, BRAC Uganda Bank Limited signed a loan from EADB amounting to Ushs 4.1 billion at an interest rate of 12% per annum for a period of 5 years with a one-year grace period. Interest and principal is paid on a quarterly basis. During 2021, the Bank drew down Ushs 1.9 billion. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. As at 31 December 2022, the facility had an outstanding balance of UGX 4.1 billion.

xii) Soluti Finance East Africa

In June 2021, BRAC Uganda Bank Limited obtained a loan from Soluti Finance amounting to Ushs 6 billion for a period of 4 years with a grace period of 6 months. This loan facility has two purposes, Ushs 2 billion for Agriculture loans at an interest rate of 12.25% and Ushs 4 billion for general business loans at an interest rate of 17.5% per annum. Interest and principal is paid on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio and it's tagged to the T-bills 182 day the interest rate is being reviewed every six months. As at 31 December 2022, the facility had an outstanding balance of UGX 4.4 billion.

xiii) Stichting Oxfam Novib

In June 2022, BRAC Uganda Bank Limited obtained a loan from Triple Jump amounting to Ushs 7.9 billion equivalent to USD 2,135,400 with a tenor of 3 years. Interest is paid on a quarterly basis. The principal will be paid as a bulk payment at the end of the loan term . The loan interest rate is on fixed rate of 16%. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. As at 31 December 2022, the facility had an outstanding balance of Ushs 8.1 billion including interest accrued.

xiv) Oiko Credit

In July 2022, BRAC Uganda Bank Limited signed a loan from Oiko Credit amounting to Ushs 30 billion at a fixed interest rate of 15% per annum for a period of 3 years thereafter interest rate will be reviewed to the prevailing 2 years Bond+4.5%. Interest is payable on a quarterly basis. The first principal repayment will be paid after 12 months thereafter every six months in equal installments. The loan was disbursable in two tranches. The first draw down of Ushs 20 billion was done in July 2022. The balance is yet to be drawn down. As at 31 December 2022, the facility had an outstanding balance of UGX 20.7 billion.

xv) Kenya Commercial Bank (KCB)

In March 2022, BRAC Uganda Bank Limited signed a loan from KCB amounting to Ushs 10.5 billion at an interest rate of 15% per annum for a period of 4 years. Interest rate is tagged to prime rate less 6%. Interest and principal are payable on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. As at 31 December 2022, the facility had an outstanding balance of UGX 8.9 billion.

Value of security held

Bank of Africa, Citi Bank, Triple Jump, KCB, EADB, aBi finance Limited, Soluti and the Oiko Credit loans are secured against the loan portfolio. BI loans and advances are unsecured.

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25. BORROWINGS AND MANAGED FUNDS (Continued)

25(b) Analysis of movement in borrowings

	2022	2021
	Ushs '000	Ushs '000
At 1 January	59,293,576	111,590,021
Receipts during the year	71,629,471	19,026,354
Interest expense	9,613,081	12,610,456
Payment of interest	(8,387,671)	(13,647,727)
Loan arrangement fees	(237,523)	(274,248)
Payment of principal during the year	(42,545,557)	(70,011,280)
At 31 December	89,365,377	59,293,576

26. OTHER LIABILITIES

	2022	2021
	Ushs '000	Ushs '000
Accrual for expenses	3,075,413	2,403,445
CRB fees payable	545,806	608,806
Staff leave provision	443,920	361,045
Accrual for audit fees	120,215	104,784
NSSF contributions payable	687,405	565,867
Excise duty	33,098	39,236
Tax withholdings payable	1,334,105	46,155
Credit life insurance premium payable	203,211	198,134
PAYE payable	1,239,882	1,000,391
Unclaimed bank credits	528	153,934
Credit life insurance claim payable	183,095	187,597
Other liabilities*	119,728	48,269
Salary accruals	14,746	-
Stamp duty accruals	135	-
	8,001,287	5,717,663

The fair value of the other liabilities approximates their carrying amounts.

* Other liabilities include commissions payable, agent commission collections, recoveries from suppression, deferred staff expenses, SMS notification fees payable, staff costs payable.

27. DONOR FUNDS

		2022	2021
	Note	Ushs '000	Ushs '000
Donor funds received in advance	27(a)	1,711,361	4,187,245
Donor funds investment in fixed assets	27(c)	2,798,567	34,803
		4,509,928	4,222,048

Donor funds relate to grants received from various donors to support the Bank's operations. Grant income is recognized to the extent that the Bank has fulfilled the conditions of the grant. This income is transferred from the deferred grant received from donors and recognized as income in the statement of comprehensive income. For donor grants restricted to funding procurement of fixed assets, grant income is recognized as the amount equivalent to the depreciation expenses charged on the fixed asset.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

27. DONOR FUNDS (Continued)

27(a) Donor funds received in advance	Note	2022 Ushs '000	2021 Ushs '000
At 1 January		4,187,245	5,106,517
Donations received during the year	27(b)	2,603,837	1,389,834
Transferred to statement of comprehensive income	27(d)	(1,581,344)	(1,847,900)
Transferred to BRAC NGO	27(d)	(356,379)	(461,206)
Transferred to donor funds investment in fixed assets	27(c)	(3,141,998)	-
At 31 December		1,711,361	4,187,245

27(b) Donations received during the year

Name of donor	2022 Ushs '000	2021 Ushs '000
MCF-AIM	1,625,750	-
World Savings Organization	859,752	265,375
European Investment Bank	-	634,530
UECCC	-	10,000
FMO	109,119	307,241
Grameen foundation	9,216	-
DEG	-	172,688
	2,603,837	1,389,834

27(c) Donor funds investment in fixed assets

	2022 Ushs '000	2021 Ushs '000
At 1 January	34,803	48,162
Transferred from donor funds received in advance	3,141,998	-
Transferred from payables	27,360	-
Transferred to statement of comprehensive income – fixed assets	(405,594)	(13,359)
At 31 December	2,798,567	34,803

27(d) Grant utilization

	2022 Ushs '000	2021 Ushs '000
Transferred to statement of comprehensive income from donor funds - grant income	1,581,344	1,822,934
Transferred to other operating income (Note 8)	-	24,966
Total transferred to statement of comprehensive income	1,581,344	1,847,900
Transferred to statement of comprehensive income-operating	-	-
Transferred to comprehensive income-fixed assets	405,594	13,359
Transferred to payables	27,360	-
Transferred to BRAC Uganda NGO	356,379	461,206
	2,370,677	2,322,465

27(e) Grant income

Name of donor	2022 Ushs '000	2021 Ushs '000
Transferred to comprehensive income-operating	1,581,344	1,822,934
Transferred to comprehensive income-fixed assets	405,594	13,359
	1,986,938	1,836,293

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

27. DONOR FUNDS (Continued)

27(f) Donations receivable

	2022	2021
	Ushs '000	Ushs '000
Name of donor		
Grameen Foundation	9,216	-
FMO	109,119	-
	118,335	-

28. SHARE CAPITAL

The authorized issued and paid ordinary shares remained 5,442,188 shares with a nominal value of Ushs 10,000. Each share is entitled to one vote. As at 31 December 2022, the shareholding structure of the Bank was as below:

	As at 1 January 2022	Addition	As at 31 December 2022
	Ushs '000	Ushs'000	Ushs '000
BRAC International Holdings BV	26,666,180	-	26,666,180
Deutsche Investitions und Entwicklungsgellschaft mbH	9,251,900	-	9,251,900
ASN Microkerdietpool	9,251,900	-	9,251,900
Shore Cap 111, LP	9,251,900	-	9,251,900
Total	54,421,880	-	54,421,880

2021

	As at 1 January 2021	Addition	As at 31 December 2021
	Ushs '000	Ushs'000	Ushs '000
BRAC International Holdings BV	21,070,000	5,596,180	26,666,180
Deutsche Investitions und Entwicklungsgellschaft mbH	7,310,000	1,941,900	9,251,900
ASN Microkerdietpool	7,310,000	1,941,900	9,251,900
Shore Cap 111, LP	7,310,000	1,941,900	9,251,900
Total	43,000,000	11,421,880	54,421,880

There is no single controlling party.

RETAINED EARNINGS/(ACCUMULATED LOSSES)

This comprises of prior year profit or loss, less appropriation to credit risk reserve, any dividend and current year profit or loss.

DIVIDEND

No dividend was proposed by the directors during the year (2021: Nil).

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FOR THE YEAR ENDED 31 DECEMBER 2022

29. CASH FLOWS FROM OPERATING ACTIVITIES

		2022	2021
		Ushs '000	Ushs '000
Operating activities			
Profit before tax		1,772,638	1,218,002
Adjustments for:			
Depreciation (property and equipment)	19	4,164,571	4,177,395
Depreciation (right of use assets)	22(a)	2,372,724	2,329,098
Amortization (intangible assets)	21	875,255	735,678
Release of deferred income	27(d)&(e)	(1,986,938)	(1,861,260)
Unrealized foreign exchange gains	9	528,687	(61,396)
Leases write off		-	(244,889)
Transfer from WIP		-	368,056
(Gain)/Loss on disposal of property, equipment and RoU assets		(55,872)	345,078
Movement in ECL for financial assets	16	83,754	1,207,277
Interest expense – leases	7(b)	1,602,565	1,626,038
Interest expense - borrowings	25(b)	9,613,081	12,610,456
Cash flow before changes in working capital		18,970,465	22,449,533
Changes in working capital			
(Decrease)/increase in loans and advances		(6,040,830)	7,914,429
(Decrease)/Increase in other assets		(579,353)	294,969
Decrease/ (increase) in related party receivables		204,533	(351,702)
Decrease in short term deposits		(23,709,990)	(9,420,976)
Increase in related party payables		2,820,864	35,273
Increase in other liabilities		2,283,624	64,748
(Decrease)/ increase in voluntary deposits		(1,574,285)	14,444,505
Decrease in loan security fund		(189,469)	(2,212,880)
Cash inflow from operations		(7,924,115)	33,217,899
Income taxes paid	12(c)	(22,170)	(752,039)
Interest paid on borrowings	25(b)	(8,387,671)	(13,647,727)
Accretion of interest		(1,283,960)	(1,212,441)
Net cash inflow from operating activities		(17,617,916)	17,605,692

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash on hand, demand deposits and investments held with other financial institutions that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value.

	2022	2021
	Ushs '000	Ushs '000
Cash on hand and balances with Bank of Uganda (Note 13)	2,409,526	2,666,322
Deposits with other financial institutions (Note 14(a))	20,032,909	12,342,523
	22,442,435	15,008,845

31. FINANCIAL RISK MANAGEMENT

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

All the Bank's financial assets and financial liabilities are classified as financial assets or financial liabilities subsequently measured at amortised cost. The amounts in the table are the carrying amounts of the financial assets and financial liabilities at the reporting date.

	2022	2021
Financial assets	Ushs '000	Ushs '000
Cash and balances with Bank of Uganda (Note 13)	2,409,526	2,666,322
Deposits and balances due from banks (Note 14(a&b))	67,810,646	36,410,270
Loans and advances to customers (Note 15)	149,736,356	143,669,606
Related party receivable (Note 17 (a))	2,018,278	2,222,811
Other assets	<u>930,571</u>	<u>1,453,263</u>
	222,905,377	186,422,272
Financial liabilities		
Loan security fund (Note 23)	30,757,363	30,946,832
Deposits from customers (Note 24)	64,101,856	65,676,141
Related party payables (Note 17(b))	2,860,208	39,344
Borrowings (Note 25)	89,365,377	59,293,576
Other liabilities	4,262,741	3,704,969
Lease liabilities (Note 22(iii))	<u>11,413,937</u>	<u>12,223,553</u>
	202,761,482	171,884,415

a) Introduction and overview

The Bank has exposure to the following risk from financial instruments:

- i) Strategic risk
- ii) Compliance risk
- iii) Capital risk
- iv) Credit risk
- v) Interest rate risk
- vi) Liquidity risk
- vii) Market risk
- viii) Operations risk

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

Risk management framework

Risk management is conducted under the guidance of a Risk Management Framework and Policy approved by the Board of Directors. The Board of Directors has overall accountability for the establishment and oversight of the Company's risk management framework. The Board of Directors also approves BRAC Uganda Bank Limited's (BUBL) risk tolerance.

The Board of BUBL, has established five board committees to ensure adequate oversight of the bank's risk management. The Board Committees are reflected on Page 6, section I- Corporate governance.

At risk policy implementation level, responsibility for risk management is at three levels, the executive headed by the Managing Director / Chief Executive Officer (CEO) and the Deputy Managing Director, Executive Director (ED), the regulated branch headed by the branch manager and the satellite office headed by the satellite manager. The CEO and COO retain the ultimate responsibility for the effective management of risk

31. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

at BUBL within the limits set by the Board of Directors and they ensure that the appropriate risk management practices are in place and operating effectively.

The senior management exercises risk management and internal controls through six management committees; Risk, Credit, Human Resource, Operations and ICT, Business Development and Management Asset and Liabilities Committee (MALCO). The committees help to support the identification, assessment, measurement and reporting of inherent risk at BUBL through; Risk Awareness Program, Risk Control Self-Assessment (RCSA), Key Risk Indicators, Operational Risk Events monitoring, Scenario Analysis, Stress testing, and Process Flows. The Management Committees report to the Board committees on matters deliberated at management level.

There is synergy and linkage between risk management and internal controls, but precisely BUBL's internal control consists of five interrelated components. These include; Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.

The overall effectiveness of the risk management framework is regularly evaluated by the internal audit, and the bank's books of accounts are audited by appointed external audits for assurance on the risk management framework and accuracy of the accounts respectively. Both internal audit and external audit report to the Board to provide an independent view on the state of the bank's affairs.

Abridged view of BUBL's Risk Management Framework

b) Strategic risk management

Strategic risk refers to the current or prospective risk of a decline in profits or capital caused by changes in the business environment or erroneous decisions, the inadequate implementation of decisions or poor responsiveness to competitive developments.

#	Components	Accountability Bank wide	Accountability Branch level	Accountability Satellite level
1.	Establish Objectives / Context	Board assisted by 5 Board Committees Tools: Vision, Mission, Values & Regulations	BM Tools: Policy Manuals, Risk Appetite limits	SM Tools: Policy Manuals, Risk Appetite limits
2.	Identify Risks & Controls	HODs assisted by Head of Risk Tools: RCSA [Process Flows, Risk sheets, Questionnaires], On-site & Off-site risk assessments, SWOT	BM assisted by BOM Tools: RCSA [Process Flows, Risk sheets], Checklists, Visits and Meetings	SM assisted by S.Teller Tools: RCSA [Process Flows, Risk sheets], Checklists, Visits, Meetings
3.	Assess Risks & Controls	MRC assisted by Head of Risk & 5 Mgt committees Tools: 5x5 Risk Matrix	BM Tools: 5x5 risk matrix	BM assisted by CS, CA and SM Tools: 5x5 Risk Matrix
4.	Evaluate & Take action	MRC / Head of Risk HoA; reports to Board Tools: 5x5 Risk Matrix, Value at Risk (VAR), 4Ts	BM assisted by BOM Tools: 5x5 Risk Matrix, Risk Appetite limits	BM assisted by CS, CA and SM Tools: 5x5 Risk Matrix, Risk Appetite limits
5.	Monitor & Report	MRC / HoA; report to Board Risk /Compliance /HODs; report to MRC Tools: Risk register, Incident reports, Systems	BM assisted by BOM Tools: Risk register, Incident reports, Systems	BM assisted by CS, CA and SM Tools: Risk register, Incident reports, Systems

31. FINANCIAL RISK MANAGEMENT (Continued)

b) Strategic risk management (Continued)

Key

BM- Branch Manager; BOM- Branch Operations Manager; CS-Credit Supervisor; CA- Credit Administrator; HODs- Head of Departments; HOA- Head of Internal Audit; MRC- Management Risk Committee; SM- Satellite Manager; SWOT – strength, Weakness, Opportunities and Threats

Management of strategic risks

As a corporate entity, the board has overall accountability for the strategic decisions which are implemented by the senior management team. The bank has established a board of directors and board committees as per requirements in the Financial Institutions Act (FIA)2004 (as amended). The board established a 5-year strategic plan and budget which informs the activities run by the bank. The strategic plan and budget are reviewed annually to reflect changes in the market as informed by the Strengths, Weakness, Opportunities,

Threats (SWOT) analysis, stress testing for potential threats and changes in regulatory environment.

Senior management undertakes its mandate for the effective implementation of the strategic plan developed in accordance with the Board's criteria and standards through employing stress testing techniques in the strategic planning and management process to assess any potential threats to the implementation of its strategies. The bank has a management information system that enables management to gather necessary data for monitoring its strategic risk exposure. In addition to the management information systems, checks and balances through regular test of the strategic risk control systems by both independent units, internal and external audit, are undertaken to ensure that the institution has corporate governance and appropriate risk controlling system.

c) Compliance risk management

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a financial institution may suffer as a result of its failure to comply with laws, regulations, prudential guidelines, supervisory recommendations and directives, rules, related self-regulatory standards and codes of conduct applicable to its activities.

Management of compliance risk

BRAC Uganda Bank Limited (BUBL) promotes a corporate culture that emphasizes standards of honesty and integrity where the board and senior management lead by example. Otherwise, failure to consider the impact of its actions on its shareholders, customers, employees, and the markets may result in significant reputational risk and regulatory penalties. BUBL established a compliance risk management framework approved by the board and whose execution is championed by the Head Compliance who also doubles as the Anti-Money Laundering Officer. The compliance risk management framework focus on; assignment of roles for compliance risk management, the compliance risk management process, policies and procedures and an independent review.

BUBL identifies the compliance risk by considering legal obligations placed on it from the following sources; legislation, prudential norms, regulations, guidelines and circulars issued by regulators from time to time. Compliance risk exposure is primarily managed through having a compliance risk department with appropriate reporting lines, segregation of duties, systems for periodic testing of the control framework and reporting of compliance testing exceptions. Compliance risk management is further enhanced through the creation of awareness among the staff dealing with processes, which are likely to be the sources of non-compliance.

d) Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern by complying with the FIA while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Bank consists of equity attributable to the equity holders of the Company, comprising share capital, accumulated (losses) or profits and other reserves as disclosed in the statement of changes in equity. Management regularly reviews the capital structure and adjusts it in light of changes in the economic conditions.

31. FINANCIAL RISK MANAGEMENT (Continued)

d) Capital risk management (Continued)

Management has defined debt as amounts owing to related and third parties. This includes both long- and short-term loans as well as trade payables where credit has been extended. Equity is defined as the capital invested by shareholders as well as any accumulated reserves and equity loans where applicable. The Bank monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

The Bank includes within net debt; non-interest-bearing loans and borrowing, trade and other payables, less cash and cash equivalents, excluding discontinued operations. The Bank's net debt to equity ratio is analyzed as follows:

	2022	2021
	Ushs '000	Ushs '000
Other liabilities (Note 26)	8,001,287	5,717,663
Due to related parties (Note 17(b))	2,860,208	39,344
Lease liability (Note 22)	11,413,937	12,223,553
Borrowings (Note 25)	89,365,377	59,293,576
Less: Cash and cash equivalents (Note 30)	(22,442,435)	(15,008,845)
Net debt	89,198,374	62,265,291
Equity	51,911,511	50,861,786
Capital and net debt	141,109,885	113,127,077
Gearing ratio	30%	55%

The Bank's objective when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide
- Returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Financial Institutions Act requires each Tier 2 Institution to:

- Hold a minimum level of the regulatory capital of Ushs 1,000,000,000 (One billion); The minimum capital level was a raised to Ugx 20,000,000,000 (Twenty billion) effective 31 December 2022 and to Ushs 25,000,000,000 (Twenty five billion only) effective 30 June 2024.
- Maintain a ratio of total regulatory capital to the risk weighted assets of not less than 14.5% and;
- Maintain core capital of not less than 12.5% of risk weighted assets.

The Bank's regulatory capital is divided into two tiers:

- Tier 1 capital (Core capital) consists of shareholders' equity comprising paid up capital and irredeemable, non-cumulative preference shares, share premium, prior years retained profits, net after tax profits current year to date and general reserves less goodwill and other intangible assets, current years losses, investment in unconsolidated financial subsidiaries, deficiencies in provisions for losses, prohibited loans to insiders and other deductions determined by Bank of Uganda.
- Tier 2 capital (Supplementary capital) includes the Bank's unencumbered general provisions for credit losses, subordinated term debt and fair value adjustment reserve, revaluation reserves on fixed assets and hybrid capital instruments. Tier 2 capital is limited to 100% of core capital.

The FIA requires the Bank to monitor the adequacy of its capital using ratios. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The risk-based approach applies to both on and off-balance sheet items. The focus of this approach is credit risk, interest rate risk, market risk, operational risk, concentration risk and underlying collateral risk. The assets are weighted according to broad categories, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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31. FINANCIAL RISK MANAGEMENT (Continued)

d) Capital risk management (Continued)

The table below summarizes the composition of the regulatory capital of the Bank

		2022	2021
	Note	Ushs '000	Ushs '000
CORE CAPITAL (Tier 1)			
Paid up share capital	28	54,421,880	54,421,880
Accumulated losses	28	(3,092,313)	(3,560,094)
Less: Deductions determined by the FIA			
Capital work in progress	20	(1,605,000)	(2,563,122)
Intangible assets	21	(7,454,612)	(5,850,631)
Deferred income tax asset	12(b)	(8,797,321)	(9,458,625)
Unrealized foreign exchange gains	9	(360,447)	(875,493)
Total Core Capital		33,112,187	32,113,915
SUPPLEMENTARY CAPITAL (Tier 2)			
Unencumbered general provisions for losses	35	1,495,406	1,409,010
Subordinated debt	25	550,237	498,704
Total Supplementary Capital		2,045,643	1,907,714
TOTAL CAPITAL (Tier 1+Tier 2)		35,157,830	34,021,629

The table below summarizes the risk weighted assets of the Bank:

		Financial position nominal amount		Risk weighting	Risk weighted assets	
		2022	2021		2022	2021
		Ushs'000	Ushs'000		Ushs'000	Ushs'000
Notes and coins	13	1,409,526	1,666,322	0%	-	-
Balances with Bank of Uganda	13	1,000,000	1,000,000	0%	-	-
Balances with banks in Uganda before ECL	14(a)	20,169,192	12,426,490	20%	4,033,838	2,485,298
Balances with other institutions in Uganda before ECL	14(b)	48,102,767	24,231,479	20%	9,620,553	4,846,296
Loans net of provisions	31(d)	151,193,662	146,195,397	100%	151,193,662	146,195,397
Premises and other fixed assets	22(a) & 19	19,150,406	23,395,783	100%	19,150,406	23,395,784
Other assets**		5,957,600	4,966,584	100%	5,957,600	4,966,584
Total risk weighted assets		246,983,151	213,882,055		189,956,059	181,889,358

Capital	2022	2021	FIA Regulatory ratios	2022	Ratio
	Ushs'000	Ushs'000			2021
Tier 1 Capital (Min ratio -12.5%)	<u>33,112,187</u>	<u>32,113,915</u>	<u>12.5%</u>	<u>17.43%</u>	<u>17.66%</u>
Tier 1 and Tier 2 Capital (Min ratio -14.5%)	<u>35,157,830</u>	<u>34,021,629</u>	<u>14.5%</u>	<u>18.51%</u>	<u>18.70%</u>

** Other assets as per the capital computation is made up of other assets, related party receivable, income tax receivable and the hardware and branch refurbishment amounts under intangible assets as per statement of financial position excluding intangibles under WIP.

31. FINANCIAL RISK MANAGEMENT (Continued)

d) Capital risk management (Continued)

The loans and advances figure used in the computation of the risk weighted assets is based on the FIA provisioning requirements and is derived as follows:

	2022	2021
	Ushs '000	Ushs '000
Gross loans and advances	153,822,796	156,741,978
Specific provisions for loans and advances	(2,629,136)	(10,546,581)
Net loans and advances	<u>151,193,660</u>	<u>146,195,397</u>

The figures for deposits and balances due from Banks used in the computation of risk weighted assets excludes impairment allowances as reconciled as below:

	2022	2021
	Ushs '000	Ushs '000
As per Capital ratio Computations		
Balance with Banks in Uganda	20,169,192	12,426,490
Balance with other Institutions in Uganda	48,102,767	24,231,479
Total per Capital Computation	<u>68,271,959</u>	<u>36,657,969</u>
Less: Impairment Allowances (Note 14(a&b))	(461,313)	(247,699)
Balance per statement of financial position	<u>67,810,646</u>	<u>36,410,270</u>

BASEL II implementation

In June 2006, the Basel Committee on Banking Supervision on Banking Supervision (BCBS) issued the finalised Basel II Framework that comprehensively revised the 1988 Basel I Capital Accord. The Supervised Financial Institutions (SFIs) in Uganda are largely operating under the Basel I Capital accord with a few selected aspects of Basel II and Basel III accords. Full implementation of the Basel I Capital Accord in Uganda was attained when the Market Risk Regulations were gazetted in 2018. It should be noted that SFIs in Uganda are holding capital in accordance with the Basel I Capital Accord, which only covers credit and market markets.

Cognisant of the need to introduce capital requirements for the risks not addressed under the Base I Accord, the Bank of Uganda (BOU) has made the decision to implement the Basel II Capital Accord, together with some elements from Basel III.

The Basel II Framework introduces three (3) pillars of the quantitative and qualitative treatment of capital. Pillar 1 of the Basel II Framework expands the minimum capital adequacy requirement by including operational risk, in addition to credit and market risks that are covered under Basel I framework. Pillar 2 focuses on enhanced risk management while pillar 3 addresses transparency by encouraging market disclosures by SFIs.

BOU commenced full implementation of Basel II effective from 1st January 2022.

Capital Buffers

The Financial Institutions (capital Buffers and leverage Ratio) Regulations, 2020 were gazetted and took effect on 31st December 2020. The key developments arising in the Regulations are the introduction of; a capital Conservation Buffer (CCB) of 2.5 % of risk weighted assets over and above the core capital ratio and total capital ratio, a systematic Risk Buffer for domestic systematically important banks (DSIBs) ranging from 0% to 3.5% of weighted assets over and above the CCB, a countercyclical Capital (Ccy) Buffer of 2.5% of risk weighted assets and a minimum Leverage Ratio of 6% of the total balance sheet and off-balance sheet assets.

All commercial Banks and credit institutions are expected to comply with the new Capital Conservations Buffer and Leverage Ratio, while domestic systematically important banks (DSIBs) should comply with the systematic risk buffer prescribed by BOU in accordance with the institution's systematic ranking.

31. FINANCIAL RISK MANAGEMENT (Continued)

d) Capital risk management (Continued)

Internal Capital Adequacy Assessment Plan

Bank of Uganda issued guidelines to Supervised Financial Institutions (SFIs) in 2021 in regard to Internal Capital Adequacy Assessment Process (ICAAP). ICAAP is the formal process through which a bank identifies, measures, aggregates and monitors material risk, to ultimately build a risk profile that becomes the basis for allocating capital. In accordance with these guidelines, BUBL developed an ICAAP policy to ensure that the overall internal capital levels are adequate and consistent with the bank's strategies, business plans, risk profiles and operating environments on a going concern basis. Through ICAAP, the Bank assesses and maintains, on an ongoing basis, capital that it considers adequate to cover the material risks based on the risk appetite as set by the Board of Directors and submit reports annually to Bank of Uganda

e) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers. The credit policy of BRAC Uganda Bank Limited requires all credit exposures to be measured, monitored and managed proactively. Exposure to credit risk is monitored on an ongoing basis by the commercial ventures' respective management teams. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

BRAC Uganda Bank Limited does not have any significant exposure to any individual customer or counterparty.

The greatest portion of the Bank's loan book is unsecured, company guaranteed and as such, exposure to credit risk and the management of this risk is a key consideration for the Board. To mitigate this risk, the BRAC lending model engages respective Bank members to exert pressure on Bank members who have defaulted.

Impact of Ebola

On 20 September 2022, the Ministry of Health in Uganda confirmed an outbreak of Ebola in Uganda
To contain the spread of the disease, the government imposed a lock down in the two most affected districts (Kasanda and Mubende) from 16th October 2022 to 17th December 2022. This affected client businesses and cashflows and their ability to repay their loans on time. The default rates increased with Portfolio at Risk (30 days) closing at 11.86% as at 31 December 2022.

The restrictions were uplifted on 17th December 2022 and on 11 January 2023, the country was declared free of the Ebola disease.

The Directors expect that the Bank will continue operations given the above developments. No other significant changes are expected in the application of judgement and estimates made in the measurement of the Bank's assets and liabilities, and in assessing the Bank's going concern status.

Macroeconomic Forward-looking information for measuring of ECL.

The global economy suffered a heavy shock from the spill over effects of COVID 19 and the Ukraine/Russia war and hence there was a need to revisit the forecasts used. The Bank obtained macroeconomic factors from Bank of Uganda and Uganda Bureau of statistics including terms of trade, CPI core, Inflation core, lending rate, forex rate, 91-T-Bill, credit domestic product, trade balance, private demand deposits, private time and saving deposits, CBR and time deposit rate. It then performed a multivariate regression analysis between the entity's NPL as a proxy for the entity's default rates and the macroeconomic factors. The variables selected as the most significant factors with low p- values were then considered in the final forward-looking information overlay.

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

From the analysis the two factors that were considered as those with the strongest relationship to the Banks's NPL were CBR for micro loans and terms of trade for non- micro loans. The Bank also introduced a dummy variable to represent the pandemic in its forward-looking information. The pandemic is a dummy variable with a binary input where 1 means the presence of a pandemic and 0 means otherwise. In regression analysis, a dummy variable is one that takes only the value 0 or 1 to indicate the absence or presence of some categorical effect that maybe expected to shift the outcome. This was also regressed against the Bank's NPL ratio and the effect was represented by an increase in the default rates.

The Bank also relied on generally accepted statistical and mathematical approaches to perform economic scenario analysis with the results consequently used to derive stressed probability of defaults for three different scenarios i.e., Base, Upside and Downside.

Weighting applied to the base, upside and downside

The Bank changed the weightings it applied to its base, upside and downward scenarios to 50%, 20% and 30% respectively from 40%, 20% and 40% respectively because of the assumption that the economy will recover in the near term given effects of COVID 19, Ukraine/Russia conflict and Ebola subsidizing and thus a 50% chance was chosen for the best-case scenario.

Use of estimates and judgements

There have been no material revisions to the nature and estimates of amounts reported in prior periods. However, the shocks in the economy have required significant judgments and estimates to be made, including determining which information obtained subsequent to period end provides evidence of conditions that existed as at the end of the reporting period ('adjusting events after the reporting period') and which do not ('non-adjusting events after the reporting period')

Use of assumptions

Given that the economy has shown signs of recovery from the effects of COVID 19 and the effects of the Russia- Ukraine conflict are subsidizing as reflected by the decline in strategic commodities prices (petroleum and cereals); its projected that there will be no major disruption in the Bank's operations due to these factors. However, Management will closely monitor and assess for its impact on the business. The Bank has undertaken a variety of measures and implemented to ensure that the Bank will be able to operate and service clients.

Customer credit risk is not expected to increase further, management will continue to closely monitor customer segments to ensure that exposures are mitigated.

There are no conditions that would warrant impairment of non-financial assets. There are no significant financial assets measured at fair values that would materially impact the performance of the Bank.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial period are different from the judgements and assumptions used, could require a material adjustment to the carrying amounts of the assets or liabilities reported in these financial statements. The directors and management will continue to monitor the measures taken by the Government of Uganda and adjust the Bank's business strategies and plans accordingly.

Management of credit risk

As set out above, the main activity of the Bank is the provision of unsecured loans to company members. The Board of Directors has delegated responsibility for the oversight of credit risk to the Chief Executive Officer and the risk department. However, this must be viewed in light of the overall framework of the exclusive use of "company guaranteed" loan repayment mechanism

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

Loan application process

a) *Group guaranteed loan*

The group loans are appraised by the Credit Officer (CO) in the field and these Loan application forms are brought before the Branch Manager (BM) for appraisals. The BM will visit the house of the potential borrower/applicant before recommendation of the loan to the Area Manager (AM) for approval. A survey form containing 10 important points is filled.

The BM confirms that the CO was properly and appropriately trained and have assessed the feasibility of all member loan applications.

The loan appraisal work is done by the CO and reviewed by the BM who confirms that the applicant has provided all necessary information and that is complete, the loan application has been endorsed, verifies that the net income from the business is sufficient to allow for loan repayment, all guarantors have fully signed the loan application and also confirms that all borrowers in respective groups do not have past due repayment obligations or arrears.

After completion of the verification and other formal processes, the AM will approve the loan or recommend i.e. to the final authority for approval.

All loans are repayable in equal weekly or bi-weekly installments that are collected by the credit officers during the company meetings through direct cash payments. The collections by the credit officers are subsequently paid directly to the branch teller on a daily basis.

The main criteria considered by the Company are the loan applicant's ability and willingness to meet his/her financial commitments and to remain with sufficient funds to fund household needs. The company applies these criteria for all customers, and this is complimentary to regulatory requirements.

b) *Small Enterprise Product (Individual Loans)*

Small Enterprise loans are identified by the CO who visits the customer, assesses the business working capital and profitability. A second visit is done by the AM if the loan is below Ushs 5 million and above Ushs 5 million, the Regional Manager (RM) will visit the client. A guarantor and a family nominee will be identified by the borrower and shall sign the guarantor and nominee form to ensure that they will be liable to repay the loan in case the customer defaults.

There are different forms of security which includes land titles, land agreements and other forms of collateral. The security is verified at local council level to confirm authenticity.

The loan appraisal is completed by the CO and the AM to ensure that the applicant has provided all necessary information and that its complete, the loan application has been endorsed, verified that the net income from the business is sufficient to allow for loan repayment, the guarantor and nominee have fully signed the loan application, the security is attached, then a loan shall be approved by the AM if its below Ushs 5 million and above Ushs 5 million the RM shall approve. The loans installments are repayable monthly.

Monitoring of collections

a) *Group guaranteed loan*

In the event that a customer does not have sufficient funds for their weekly or bi-weekly installment, and the customer has changed residence, the credit officer together with the Branch manager follow up with the local council chairperson about the whereabouts/ new place of residence.

If a customer dies, the outstanding loan balance is paid by the insurance company under the credit life insurance policy.

b) *Small Enterprise Product (Individual Loans)*

The Loans are repayable monthly. Monitoring, branch review unit and internal Audit independently monitors the loan to ensure quality.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

Impaired loans and advances

Impaired loans and advances are those which the company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s).

The Bank measures the loss allowance on loans and advances at an amount equal to the 12-month or lifetime expected credit losses depending on whether or not the credit risk has increased significantly since initial recognition.

The detailed disclosures relating to credit risk have been included in note 15 (loans and advances).

The Bank's maximum exposure to credit risk is represented by the following balances:

		2022	2021
		Ushs '000	Ushs '000
Balances with the central bank		1,000,000	1,000,000
Deposits with other banks	14(a)	20,032,909	12,342,523
Placements with other banking Institutions	14(b)	47,777,737	24,067,747
Loans and advances to customers	15	149,736,356	143,669,606
Related party receivables	17 (a)	2,018,278	2,222,811
Other assets		497,951	77,559
		221,063,231	183,380,246

The above table represents the worst-case scenario of credit risk exposure to the Bank at 31 December 2022 and 31 December 2021 without considering any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

ECL sensitivity analysis

Credit quality analysis

The following table sets out information about the overdue status of loans and advances to customers in stages 1, 2 and 3.

	Stage 1	Stage 2	Stage 3	2022
	Ushs'000	Ushs'000	Ushs'000	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Current: 0.-7 days	140,033,245	-	-	140,033,245
Current: 8-29 days	5,142,734	487,937	-	5,630,671
Overdue: 30- 59 days	-	1,587,769	-	1,587,769
Overdue: 60-89 days	-	470,064	589,642	1,059,706
Overdue: 90-179 days	-	-	1,628,623	1,628,623
Overdue 180- 364 days	-	-	2,072,975	2,072,975
Overdue: > 364 days	-	-	1,265,963	1,265,963
Total	145,175,979	2,545,770	5,557,203	153,278,952

	Stage 1	Stage 2	Stage 3	2021
	Ushs'000	Ushs'000	Ushs'000	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Current: 0.-7 days	128,827,746	-	-	128,827,746
Current: 8-29 days	6,310,138	1,148,885	-	7,459,023
Overdue: 30- 59 days	-	3,050,922	-	3,050,922
Overdue: 60-89 days	-	740,007	1,694,072	2,434,079
Overdue: 90-179 days	-	-	8,220,039	8,220,039
Overdue 180- 364 days	-	-	6,291,363	6,291,363
Overdue: > 364 days	-	-	349,881	349,881
Total	135,137,884	4,939,814	16,555,355	156,633,053

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

The following table sets out information about the credit quality of financial assets measured at amortized 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 15 of the financial statements.

	Stage 1	Stage 2	Stage 3	2022
	Ushs'000	Ushs'000	Ushs'000	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loans and advances at amortized cost	145,175,979	2,545,770	5,557,203	153,278,952
Expected credit loss allowance	(89,368)	(16,238)	(3,436,990)	(3,542,596)
Carrying amount	145,086,611	2,529,532	2,120,213	149,736,356

	Stage 1	Stage 2	Stage 3	2021
	Ushs'000	Ushs'000	Ushs'000	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loans and advances at amortized cost	135,137,884	4,939,814	16,555,355	156,633,053
Expected credit loss allowance	(15,428)	(8,836)	(12,939,183)	(12,963,447)
Carrying amount	135,122,456	4,930,978	3,616,172	143,669,606

Collateral held and other credit enhancements

The Bank holds collateral against certain of its credit exposures. The following table sets out the principal types of collateral held against the different types of financial instruments;

	Percentage of exposure that is subject to collateral requirement		Principal type of collateral held
	2022	2021	
Group loans	10%	10%	Cash
Non group loans	100%	100%	Cash (10%)/ Property (Land)
Staff loans	100%	100%	Property and equipment

The table below sets out the carrying amount and the fair value of identifiable collateral held against the loans and advances

	2022		2021		
	Gross carrying amount	Collateral	Gross carrying amount	Collateral	
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	
Stage 1 and 2	147,721,749	38,108,278	140,077,698	22,582,584	
Stage 3	5,557,203	1,695,889	16,555,355	3,652,035	
	153,278,952	39,804,167	156,633,053	26,234,619	

	Fair value of collateral					
2022	Maximum exposure	Cash	Properties	Total collateral	Net exposure	Associated ECL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	
Loans and advances	153,169,278	25,554,592	14,249,575	39,804,167	113,474,785	3,542,596

2021	Maximum exposure	Cash	Properties	Total collateral	Net exposure	Associated ECL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	
Loans and advances	143,669,606	3,652,035	22,582,584	26,234,619	117,434,987	12,963,447

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

Apart from loans and advances, all other financial assets are unsecured.

Amounts arising from ECL

The following table show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2021 represent the allowance account for credit losses and reflect the measurement basis under IFRS 9.

	2022	2021
	12-month ECL	12-month ECL
	Ushs '000	Ushs '000
Balance at 1 January	12,963,447	21,657,634
Change during the year	(565,011)	1,541,161
Financial assets derecognized	(8,855,840)	(10,235,348)
Balance at 31 December	3,542,596	12,963,447

ECL disclosures for financial assets

2022	12-month ECL	Lifetime ECL not	Lifetime ECL	Total
	Ushs '000	credit impaired	credit impaired	Ushs '000
		Ush '000	Ushs '000	
Cash and Bank	136,283	-	-	136,283
Short term deposits	352,030	-	-	352,030
Loans and advances	89,368	16,238	3,436,990	3,542,596
Total	577,681	16,238	3,436,990	4,030,909

2021	12-month ECL	Lifetime ECL not	Lifetime ECL	Total
	Ushs '000	credit impaired	credit impaired	Ushs '000
		Ushs '000	Ushs '000	
Cash and Bank	83,967	-	-	83,967
Short term deposits	163,732	-	-	163,732
Loans and advances	15,428	8,836	12,939,183	12,963,447
Total	263,127	8,836	12,939,183	13,211,146

Inputs, assumptions, and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the entity considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the entity's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

The remaining lifetime probability of default (PD) as at the reporting date; with

The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

The entity uses the criteria for determining whether there has been a significant increase in credit risk: quantitative test based on the days past due; and qualitative indicators;

- quantitative test based on the days past due; and
- qualitative indicators;
- a backstop of 30 days past due

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The entity collects performance and default information about its credit risk exposures analyzed by type of product and borrower. For some portfolios, information purchased from external credit reference agencies is also used.

The entity employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The entity considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for non-micro and 20 days past due for micro. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Due dates are determined after considering the grace period that might be available to the borrower. If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, The Bank determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognizing lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Inputs, assumptions, and techniques used for estimating impairment

The entity monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default
- the criteria do not align with the point in time when an asset becomes 30 days past due for non-micro and 20 days past due for micros;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and;
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

In assessing whether the borrower is in default; the Bank considers indicators that are:

- qualitative e.g. breach of covenant
- quantitative e.g. overdue status or non-payment on another obligation of the same borrower to the Bank and;
- based on data developed internally or obtained from external sources

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

The entity considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the entity in full, without recourse by the Bank to actions such as realizing security (if any is held);
- the borrower is more than 90 days (non-micro loans) or 30 days (micro loans) past due on any material credit obligation to the entity.; or

Incorporation of forward-looking information

The Bank 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 the ECL.

External information considered includes economic data and forecasts published by government bodies and monetary authorities such as Uganda Bureau of Statistics, Bank of Uganda and World Bank.

The Bank has identified a key driver for credit risk for its portfolio as included in the table below;

Non-micro portfolio

	Private Time and Savings Deposits (US\$ billion)	Inflation Core	Credit - Domestic (US\$ billion)	Terms of Trade
At 31 December 2022	10,103	10.2%	32,005	
At 31 December 2021	9,923	2.9%	28,733	98.39

Micro portfolio

	Central Bank Rate
At 31 December 2022	10%
At 31 December 2021	6.5%

Loss Allowance

The loss allowance recognized in the period is impacted by a variety of factors as described below:

- Transfer between stage 1 and stage 2 or 3 due to financial instrument experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent step up (or step down) between 12 months and lifetime ECL;
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments derecognised during the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to the models;
- Impact on the measurement of ECL due to changes made to the model or assumptions;
- Discounts unwind within ECL due to the passage of time as ECL is measured on present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write offs of allowances related to assets that were written off during the period.
- An increase in the gross carrying amounts of the loans advances impacts on the movement in the ECL amounts with a consideration of the relevant PDs used in the ECL computation.
- The ECL on the placements and cash and bank balances is directly impacted by the increase or decrease of the closing balance by the year end.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

The following table explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Year ended 31 December 2022

ECL Movement for loans and advances	Stage 1 12-month ECL Ushs'000	Stage 2 Lifetime ECL Ushs'000	Stage 3 Lifetime ECL Ushs'000	Total Ushs'000
Loss allowance as at 1 January 2022	15,428	8,836	12,939,183	12,963,447
Movement during the period	73,940	7,402	(646,353)	(565,011)
Write off	-	-	(8,855,840)	(8,855,840)
Loss allowance as at 31 December 2022	<u>89,368</u>	<u>16,238</u>	<u>3,436,990</u>	<u>3,542,596</u>

Year ended 31 December 2021

ECL Movement for loans and advances	Stage 1 12-month ECL Ushs'000	Stage 2 Lifetime ECL Ushs'000	Stage 3 Lifetime ECL Ushs'000	Total Ushs'000
Loss allowance as at 1 January 2021	60,104	218,849	21,378,681	21,657,634
Movement during the period	(44,676)	(210,013)	1,795,850	1,541,161
Write off	-	-	(10,235,348)	(10,235,348)
Loss allowance as at 31 December 2021	<u>15,428</u>	<u>8,836</u>	<u>12,939,183</u>	<u>12,963,447</u>

Cash and cash equivalents

Year ended 31 December 2022

	2022 Ushs'000	2021 Ushs'000
Balance as at 1 January	83,967	96,819
Net re-measurements of loss allowances	<u>52,316</u>	<u>(12,852)</u>
Balance at 31 December	<u>136,283</u>	<u>83,967</u>

Deposits and balances due from banks

Year ended 31 December 2022

	2022 Ushs'000	2021 Ushs'000
Balance as at 1 January	163,732	259,757
Net re-measurements of loss allowances	<u>161,298</u>	<u>(96,025)</u>
Balance at 31 December	<u>325,030</u>	<u>163,732</u>

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

Loss allowance reconciliation

The following table provides a reconciliation between:

- Amounts shown in the above tables reconciling opening balances of loss allowances per class of financial instruments; and
- The impairment losses on the financial instruments in line with the statement of profit or loss and other comprehensive income.

2022

	Loans and advances to customers at amortized cost	Placements at amortized cost	Cash and cash equivalents	Total
Balance at 1 January	12,963,447	163,732	83,967	13,211,146
Charge during the year	(565,011)	161,298	52,316	(351,397)
Write offs during the year	(8,855,840)	-	-	(8,855,840)
Balance at 31 December	3,542,596	325,030	136,283	4,003,909

2021

	Loans and advances to customers at amortized cost	Placements at amortized cost	Cash and cash equivalents	Total
Balance at 1 January	21,657,634	259,757	96,819	22,014,210
Charge during the year	1,541,161	(96,025)	(12,852)	1,432,284
Write offs during the year	(10,235,348)	-	-	(10,235,348)
Balance at 31 December	12,963,447	163,732	83,967	13,211,146

The following table provides a reconciliation between;

- Amounts shown in the above tables reconciling opening balances of loss the gross loan portfolio per class of financial instruments; and
- The impairment losses on the financial instruments in line with the statement of profit or loss and other comprehensive income.

2022

	Loans and advances to customers at amortized cost	Placements with other banking institutions	Deposits with other banks	Total
Balance at 1 January	156,633,053	24,231,479	12,426,490	193,291,022
Loans disbursed	353,444,110	-	-	353,444,110
Loan repayments	(347,398,530)	-	-	(347,398,530)
Loan write offs	(8,855,840)	-	-	(8,855,840)
Net cash movement	-	23,871,288	7,742,702	31,613,990
Loan modification	781,180	-	-	781,180
Deferred loan fees	(1,301,002)	-	-	(1,301,002)
Deferred staff expense	(24,019)	-	-	(24,019)
Balance at 31 December	153,278,952	48,102,767	20,169,192	221,550,911

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

Inputs, assumptions, and techniques used for estimating impairment (Continued)

2021

	Loans and advances to customers at amortized cost	Investments at amortized cost	Cash at bank	Total
Balance at 1 January	174,557,824	38,442,637	14,328,656	227,329,117
Loans disbursed	320,778,754	-	-	320,778,754
Loan repayments	(328,359,254)	-	-	(328,359,254)
Loan write offs	(10,235,348)	-	-	(10,235,348)
Net cash movement	-	(14,211,158)	(1,902,166)	(16,113,324)
Loan modification	1,216,330	-	-	1,216,330
Deferred loan fees	(1,195,441)	-	-	(1,195,441)
Deferred staff expense	(129,812)	-	-	(129,812)
Balance at 31 December	156,633,053	24,231,479	12,426,490	193,291,022

Credit risk concentration by sector

The Bank monitors concentration of credit risk by sector. An analysis of concentration of credit risk from loans and advances to customers is shown below:

Concentration by sector	2022 Ushs'000	2021 Ushs'000
Trade	98,147,847	97,134,815
Agriculture	28,699,203	34,058,971
Business services	7,828,629	7,420,748
Manufacturing	7,039,811	6,419,564
Community, social & other services	4,808,206	4,423,440
Building, construction and real estate	5,115,794	4,345,875
Personal loans and house hold loans	434,386	1,024,258
Transport and communication	824,129	827,390
Mining and quarrying	671,289	726,477
Electricity and water	39,882	171,688
Other services	213,620	188,750
Total	153,822,796	156,741,976

From a risk management point of view, once an asset is forborne or modified due to financial difficulties of the borrower, the Bank's special department for distressed assets continues to monitor the exposure until it exits forbearance, i.e., it is either cured or completely and ultimately derecognised.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

	2022 Ushs'000	2021 Ushs'000
Amortized cost of financial assets modified during the period	4,614,641	5,630,367
Net modification (loss)/gain	(435,150)	225,007

31. FINANCIAL RISK MANAGEMENT (Continued)

e) Credit risk (Continued)

Inputs, assumptions, and techniques used for estimating impairment (Continued)

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12 months ECL during the period.

31 December 2022	Post modification		Pre-modification	
	Gross carrying amount	Corresponding ECL	Gross carrying amount	Corresponding ECL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Facilities that have cured since modification and are now measured using the 12-month ECL	134,181	87	193,538	73,626
Facilities that have reverted to Stage 2/3 lifetime ECL having once cured	863,980	545,900	1,540,961	403,974

31 December 2021	Post modification		Pre-modification	
	Gross carrying amount	Corresponding ECL	Gross carrying amount	Corresponding ECL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Facilities that have cured since modification and are now measured using the 12-month ECL	2,289,100	249	1,995,423	885,419
Facilities that have reverted to Stage 2/3 lifetime ECL having once cured	3,425,374	2,303,936	4,991,275	3,855,488

f) Interest rate risk

BRAC Uganda Bank Limited exposure to interest rate fluctuations is mitigated by fixed interest rate borrowings as well as fixed interest rates applicable to loans extended to Bank members. BRAC Uganda Bank Limited does not engage in speculative transactions or take speculative positions on its interest rates.

The table below summarizes the exposure to interest rate risk through grouping of assets and liabilities into repricing categories, determined to be the earlier of the contractual repricing date or maturity.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL RISK MANAGEMENT (Continued)

f) Interest rate risk (Continued)

Year ended 31 December 2022		Up to 1 month	From 1 to 3 months	From 3 to 12 months	Above 12 months	Sub total	Fixed interest rates instruments	Non-interest bearing	Total Ushs '000
Financial Assets	Average interest	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Cash and balances with the central bank		-	-	-	-	-	-	2,409,526	2,409,526
Deposits due from other financial Institutions	11%	32,468,542	7,455,434	27,886,670	-	67,810,646	-	-	67,810,646
Loans and advances to customers	51.14%	-	-	-	-	-	149,736,356	-	149,736,356
Total financial assets		32,468,542	7,455,434	27,886,670	-	67,810,646	149,736,356	2,409,526	219,956,528
Financial liabilities									
Customer deposits		20,125,735	13,817,786	30,158,335	-	64,101,856	-	-	64,101,856
Borrowings and managed funds	13.57%	637,131	4,835,703	16,108,075	67,784,468	89,365,377	-	-	89,365,377
Lease liabilities		277,443	618,694	2,784,124	7,733,676	11,413,937	-	-	11,413,937
Total financial liabilities		21,040,309	19,272,183	49,050,534	75,518,144	164,881,170	-	-	164,881,170
Interest rate gap		11,428,233	(11,816,749)	(21,163,864)	(75,518,144)	(97,070,524)	149,736,356	2,409,526	55,075,358

Year ended 31 December 2021		Up to 1 month	From 1 to 3 months	From 3 to 12 months	Above 12 months	Sub total	Fixed interest rates instruments	Non-interest bearing	Total Ushs '000
Financial Assets	Average interest	Ushs '000	Ushs '000	Ushs '000	Ushs '000			Ushs '000	Ushs '000
Cash and balances with the central bank		-	-	-	-	-	-	2,666,322	2,666,322
Deposits due from other financial Institutions	10.88%	17,444,101	2,571,836	16,394,333	-	36,410,270	-	-	36,410,270
Loans and advances to customers	47.22%	-	-	-	-	-	143,669,606	-	143,669,606
Total financial assets		17,444,101	2,571,836	16,394,333	-	36,410,270	143,669,606	2,666,322	182,746,198
Financial liabilities									
Customer deposits		10,572,391	20,222,412	23,978,854	-	54,773,657	-	10,902,484	65,676,141
Borrowings and managed funds	12.49%	4,354,878	14,981,213	17,080,255	23,151,478	59,567,824	-	-	59,567,824
Lease liability		-	2,700	108,878	12,111,975	12,223,553	-	-	12,223,553
Total financial liabilities		14,927,269	35,206,325	41,167,987	35,263,453	126,565,034	-	10,902,484	137,467,518
Interest rate gap		2,516,832	(32,634,489)	(24,773,654)	(35,263,453)	(90,154,764)	143,669,606	(8,236,162)	45,278,680

31. FINANCIAL RISK MANAGEMENT (Continued)

f) Interest rate risk (Continued)

The previous tables show the undiscounted cash flows on the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments may vary from this analysis. A realistic 1% (2021: 1%) increase/decrease in interest rates in the current year would affect profit or loss by Ushs +/-966,222 (2021: Ushs +/-901,548) and equity by Ushs +/- 676,355 (2021: Ushs +/-631,084)

The analysis reflects the impact that is reasonably possible at the reporting date. Management monitors the impact of 1% movement in interest rates. The reasonably possible change does not include remote or worst-case scenarios or stress tests.

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank has no financial liabilities and financial assets indexed on the libor.

g) Liquidity risk

Liquidity risk is the risk that operations cannot be funded, and financial commitments cannot be met timely and cost effectively. The risk arises from both the difference between the magnitude of assets and liabilities and the disproportion in their maturities. Liquidity risk management deals with the overall profile of the balance sheet, the funding requirements of the Bank and cash flows. In quantifying the liquidity risk, future cash flow projections are simulated, and necessary arrangements are put in place in order to ensure that all future cash flow commitments are met from the working capital generated by the Bank and also from available financial institutions facilities.

BRAC Uganda Bank Limited manages its debt maturity profile, operating cash flows and the availability of funding so as to meet all refinancing, repayment and funding needs. As part of its overall liquidity management, BRAC Uganda Bank Limited maintains sufficient levels of cash or fixed deposits to meet its working capital requirements. In addition, BRAC Uganda Bank Limited maintains the grouping facilities of a reasonable level.

Exposure to Liquidity risk

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2022 to the contractual maturity date.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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31. FINANCIAL RISK MANAGEMENT (Continued)

g) Liquidity risk (Continued)

31 December 2022	Up to 1 month Ushs '000	From 1 to 3 months Ushs '000	From 3 to 12 months Ushs '000	Above 12 months Ushs '000	Total Ushs '000
Assets					
Financial assets					
Cash at hand	1,409,526	-	-	-	1,409,526
Deposits due from other financial Institutions	32,929,856	7,455,434	27,886,670	-	68,271,960
Loans and advances to customers	20,988,678	34,910,212	95,814,242	3,369,635	155,082,767
Related party receivables	108,172	224,225	1,685,881	-	2,018,278
Total financial assets	55,436,232	42,589,871	125,386,793	3,369,635	226,782,531
Financial liabilities					
Loan security fund	8,602,134	5,217,243	16,773,898	164,088	30,757,363
Customer deposits	20,125,735	13,817,786	30,158,335	-	64,101,856
Related party payables	266,863	542,997	2,050,348	-	2,860,208
	637,131	4,835,703	16,108,075	78,616,555	
Borrowings and managed funds					100,197,464
Other liabilities	954,185	850,771	2,457,785	-	4,262,741
Lease liabilities	-	-	3,956,826	11,689,303	15,646,129
Total financial liabilities	30,586,048	25,264,500	71,505,267	90,469,946	217,825,761
Liquidity gap	24,850,184	17,325,371	53,881,526	(87,100,311)	8,956,770

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL RISK MANAGEMENT (Continued)

g) Liquidity risk (Continued)

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2021 to the contractual maturity date.

31 December 2021	Up to 1 month Ushs '000	From 1 to 3 months Ushs '000	From 3 to 12 months Ushs '000	Above 12 months Ushs '000	Total Ushs '000
Assets					
Financial Assets					
Cash and bank with the central bank	1,666,322	-	-	-	1,666,322
Deposits due from other financial institutions	17,691,800	2,571,836	16,394,333	-	36,657,969
Loans and advances to customers	10,724,042	22,780,042	124,725,807	2,792,717	161,022,608
Related party receivable	281,106	572,939	1,368,766	-	2,222,811
Total financial assets	30,363,270	25,924,817	142,488,906	2,792,717	201,569,710
Financial liabilities					
Loan security fund	9,092,467	4,898,140	16,830,323	125,902	30,946,832
Customer deposits	21,474,875	20,222,412	23,978,854	-	65,676,141
Related party payables	-	-	39,344	-	39,344
Borrowings and managed funds	4,354,878	14,981,213	17,080,255	30,907,970	67,324,316
Other liabilities	1,658,058	794,089	1,252,822	-	3,704,969
Lease liabilities	-	-	3,297,719	14,131,217	17,428,936
Total financial liabilities	36,580,278	40,895,854	62,479,317	45,165,089	185,120,538
Liquidity gap	(6,217,008)	(14,971,037)	80,009,589	(42,372,372)	16,449,172

31. FINANCIAL RISK MANAGEMENT (Continued)

h) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both which are exposed to general and specific market movements and changes in the level of volatility.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

Overall responsibility for managing market risk rests with the Chief Executive Officer. Management is responsible for the development of detailed risk management policies and for the day-to-day implementation of those policies.

i) Currency risk

BRAC Uganda Bank Limited foreign exchange risks comprise transactions risk which arise from funds received in currencies other than the local currency and minimal foreign currency deposits and cash at the Bank placed with licensed financial institutions. BRAC Uganda Bank Limited is exposed to foreign currency fluctuations mainly in respect of term loans denominated in United States Dollars.

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.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL RISK MANAGEMENT (Continued)

i) Currency risk (Continued)

The table below summarizes the Bank's exposure to foreign currency risk as at 31 December 2022. The amounts denominated in Uganda Shillings (Ushs) are indicated in the table below for information.

	Ushs	USD	2022 Total	Ushs	USD	2021 Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
ASSETS						
Cash and Bank	20,810,445	1,631,990	22,442,435	9,394,696	5,614,149	15,008,845
	20,810,445	1,631,990	22,442,435	9,394,696	5,614,149	15,008,845
Equity and Liabilities						
Borrowings and managed funds	87,478,550	1,886,827	89,365,377	44,021,088	15,546,736	59,567,824
	87,478,550	1,886,827	89,365,377	44,021,088	15,546,736	59,567,824
Net position		(254,837)			(9,932,587)	

31. FINANCIAL RISK MANAGEMENT (Continued)

i) Currency risk (Continued)

Sensitivity analysis

The following sensitivity analysis reflects the impact that is reasonably possible at the reporting date. Management monitors the impact of 5% movement in foreign exchange rates. The reasonably possible change does not include remote or worst-case scenarios or stress tests.

	2022 Ushs '000	2021 Ushs '000
	Effect on profit before tax	Effect on profit before tax
Currency-USD		
+5% US\$ Movement	(12,742)	(496,629)
-5% US\$ Movement	12,742	496,629

	2022 Ushs '000	2021 Ushs '000
	Effect on equity	Effect on equity
Currency-USD		
+5% US\$ Movement	(9,520)	(347,640)
-5% US\$ Movement	9,520	347,640

j) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Organization'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 behavior.

The Organization's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each BRAC Program. This responsibility is supported by the development of overall Organizational standards for the management of operational risk in the following areas:

- i. Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- ii. Requirements for the reconciliation and monitoring of transactions
- iii. Compliance with regulatory and other legal requirements
- iv. Documentation of controls and procedures
- v. Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- vi. Requirements for the reporting of operational losses and proposed remedial action
- vii. Development of contingency plans
- viii. Training and professional development
- ix. Ethical and business standards
- x. Close monitoring and management oversight.

Compliance with Bank's standards is supported by a program of periodic reviews undertaken by the compliance department. The results of reviews are discussed with the management of the programs to which they relate, with summaries submitted to the senior management of the Bank.

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

a) Valuation models

The Bank 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 e.g. quoted equity securities. These items are exchange traded positions.
- 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 not based on observable data 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.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other parameters used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of financial assets and financial liabilities approximate their fair values. None of the financial assets or financial liabilities is measured at fair value.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

34. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Borrowings and managed funds	Lease liabilities	Liabilities ordinary shares	Total
Balance as at 31 December 2021	<u>59,293,576</u>	<u>12,223,553</u>	<u>54,421,880</u>	<u>125,939,009</u>
Changes from financing cash flows				
Issue of shares	-	-	-	-
Proceeds from loans and borrowings	70,922,252	-	-	70,922,252
Repayment of borrowings	(42,099,420)	-	-	(42,099,420)
New leases during the year	-	1,107,616	-	1,107,616
Payment of lease liabilities	-	(3,519,797)	-	(3,519,797)
Total changes from financing cash flows	<u>28,822,832</u>	<u>(2,412,181)</u>	<u>-</u>	<u>26,410,651</u>
Effect of changes in foreign exchange rates	261,081	-	-	261,081
Other changes				
Liability-related	(237,523)	-	-	(237,523)
New finance leases				
Capitalized borrowing costs	-	-	-	-
Interest expense	9,613,081	1,602,565	-	11,215,646
Interest paid	(8,387,670)	-	-	(8,387,670)
Total liability-related other changes	<u>1,248,969</u>	<u>1,602,565</u>	<u>-</u>	<u>2,851,534</u>
Total equity-related other changes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December 2022	<u>89,365,377</u>	<u>11,413,937</u>	<u>54,421,880</u>	<u>155,201,194</u>

35. REGULATORY CREDIT RISK RESERVE

	2022 Ushs '000	2021 Ushs '000
As at January	-	-
Transfer (to)/ from retained earnings	581,944	-
At 31 December	<u>581,944</u>	<u>-</u>

The regulatory credit risk reserve represents amounts by which allowances for impairment of loans and advances determined in accordance with the Uganda Financial Institutions Act exceed those determined in accordance with International Financial Reporting Standards. These amounts are appropriated from retained earnings in accordance with accounting policy. The reserve is not distributable.

The regulatory credit risk reserve figure is analyzed as follows:

	2022 Ushs '000	2021 Ushs '000
Provisions as per FIA		
Specific provisions	2,629,134	10,546,579
General provisions	1,495,406	1,409,010
	<u>4,124,540</u>	<u>11,955,589</u>
Impairment assessment as per IFRS 9		
Stage 1	89,368	15,428
Stage 2	16,238	8,836
Stage 3	3,436,990	12,939,183
	<u>3,542,596</u>	<u>12,963,447</u>
Regulatory credit risk reserve (excess)	<u>581,944</u>	<u>-</u>

35. REGULATORY CREDIT RISK RESERVE (Continued)

The prudential provisions in 2022 were higher than the IFRS provisions, and as such a regulatory reserve arose.

For regulatory purposes, the quality of the loan portfolio is determined using both quantitative and qualitative information and segmented into the various classes against which provisions are raised as follows:

a. Non-micro loans [Small Enterprise Program (SEP), Agriculture line of credit (ALC) and staff loans]

Credit classification	Nature of provisions	Quantitative criteria	Percentage provisioning
Standard and current	General provisions	Up to date in payments	1% of outstanding balances net of specific provisions and interest in suspense
Watch		1-89 days in arrears	
Substandard		90-179 days in arrears	20% of outstanding balance net of cash back security
Doubtful	Specific provisions	180-364 days in arrears	50% of outstanding balance net of cash back security
Loss		1 year or more in arrears	100% of outstanding balance net of cash back security

b. Micro loans (Group, ELA, IDP, CHP and agriculture group loans)

Credit classification	Nature of provisions	Quantitative criteria	Percentage provisioning
Standard and current	General provisions	Up to date in payments	1% of the outstanding performing balance of the total credit facility
Watch		1-29 days in arrears	
Substandard		30-59 days in arrears	25% of outstanding balance net of cash back security
Doubtful	Specific provisions	60-89 days in arrears	50% of outstanding balance net cash back security
Loss		90 days or more in arrears	100% of outstanding balance net of cash back security

36. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period which require adjustment to, or disclosure in the financial statements.

37. CURRENCY

These financial statements are presented in thousands of Uganda Shillings (rounded off to the nearest thousands (Ushs '000)), which is the Bank's functional currency.

38. CAPITAL COMMITMENTS

The Bank had no capital commitments as at 31 December 2022 (2021: NIL)

39. CONTINGENT ASSETS

The Bank entered into a tenancy Agreement with the Defendant for his premises in Mbale for purposes of opening and operating its offices. An advance of the rent was made in the sum of Ushs. 60 million pending refurbishment and completion of the building, and handover thereof. The Defendant breached the Agreement in failing/ refusing to handover the premises frustrating the contract. The Bank terminated and sought a refund of the rent advanced. The matter is undergoing hearing and based on legal advice, the Directors are confident that the Bank shall receive favourable ruling from the case.

40. CONTINGENT LIABILITIES

In preparation for transformation into a Tier II Financial Institution, the business of BRAC Uganda Microfinance Limited was transferred to BRAC Uganda Finance to enable BRAC Uganda Finance comply with the provisions of the Financial Institutions Act, No. 2 of 2004 (as amended), and be eligible to apply for and acquire a license to conduct/transact financial institutions business as a Tier II company (Credit Institution) in Uganda.

As a result of the re-organization, certain tax considerations required specific attention which are;

a) With Holding Tax (WHT) on dividend

BRAC Uganda Bank Limited declared a dividend of Ushs 66 billion to the shareholders (BRAC International Holdings BV) in 2018. Management believes that the transaction qualifies for treaty relief under the Uganda-Netherlands double taxation agreement if the anti-treaty shopping provisions in section 88(5) of the Income Tax Act are met. This exempts the Company from WHT of 15% of the gross amount and as such was accounted for accordingly.

Under Section 88(5) of the Income Tax Act, the recipient of the income must be the beneficial owner of the income, have full and unrestricted ability to enjoy that income and determine its future uses; and must have economic substance in the treaty partner state (Netherlands).

BRAC Uganda Bank Limited sought a private ruling from Uganda Revenue Authority (URA) in 2019 to confirm management's view as to whether this dividend payment qualifies for WHT exemption under the treaty which is still pending. Management believes the ruling will be made in favour of the bank and as such no provision is made in these financial statements and this has been disclosed as a contingent liability.

b) Capital gains tax on disposal of shares

At the point of disposing of the 51% shares of BRAC BV in BRACUF in 2018, there was capital gain realised. Generally, capital gains on disposal of assets are subject to tax in Uganda subject to the exceptions contained in the income Tax Act. However, there are ambiguities in the law which would mean that the transaction may be subjected to tax.

BRAC Uganda Bank Limited sought a private ruling from URA to confirm whether the gains from the sale of shares qualifies for the exemption.

On 20 May 2022, URA issued a private ruling on the applicability of the Double Taxation Agreement (DTA) between Uganda and Netherlands in respect of the disposal of shares by BRAC BV. In the private ruling URA noted that Through Sections 75(2) and 79(ga) of the Income Tax Act (ITA) BUBL is taxable on any gains. URA indicated that the DTA between Uganda and Netherlands does not extend to BRAC Uganda Bank Limited (BUBL). BUBL shared the information requested for by URA to compute the tax liability and awaits their response.

Management's view is that according to the DTA between Uganda and the Netherlands, any gain from the disposal of shares by BRAC BV must be taxed in Netherlands. Article 13 (4) of the DTA between Uganda. Moreover, BUBL did not source any income from the involuntary disposal of shares and therefore derived no benefit/income that should not be taxed. Management believes the ruling will be made in favour of the bank and as such no provision is made in these financial statements and this has been disclosed as a contingent liability.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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40. CONTINGENT LIABILITIES (Continued)

c) BUBL and BUML Tax Ledger Reconciliation

Upon transformation in 2019, BUBL obtained its own Tax Identification number (TIN) independent from the TIN BRAC Uganda Microfinance Limited (BUML). The BUML TIN remained operational pending clearance of all the per-transformation taxes. The Bank applied to URA to deactivate the TIN for BUML. As part of the procedures to deactivate the TIN, a compliance review has to be carried out to ensure that there are no outstanding liabilities on the TIN. As such URA reviewed the BUML tax ledgers and noted there were outstanding liabilities as summarised in below;

Tax head	Ushs
Corporation tax	9,743,829,529
Withholding tax	2,225,784,848
PAY As You Earn (PAYE)	18,462,752
Value Added Tax	403,292,255

Management's view is that all the taxes due for BUML were cleared. The reconciliation of the two ledgers is on going to establish the true position. Management believes there is no outstanding liability and as such no provision is made in these financial statements and this has been disclosed as a contingent liability.

41. ASSETS AND LIABILITIES MATURITY ANALYSIS

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2022 to the contractual maturity date.

31 December 2022	Within 12 months	After 12 months	Total
	Ushs '000	Ushs '000	Ushs '000
Assets			
Cash and Bank with the central bank	1,409,526	1,000,000	2,409,526
Deposits due from other financial Institutions	67,810,646	-	67,810,646
Loans and advances to customers	146,366,721	3,369,635	149,736,356
Related party receivable	2,018,278	-	2,018,278
Tax recoverable	41,911	-	41,911
Work in progress	2,260,635	-	2,260,635
Property and equipment	-	9,393,084	9,393,084
Intangible assets	-	7,454,612	7,454,612
Right of use	-	9,757,322	9,757,322
Deferred tax asset	-	8,797,321	8,797,321
Other assets	3,241,776	-	3,241,776
Total assets	223,149,493	39,771,974	262,921,467
Liabilities			
Loan security fund	30,593,275	164,088	30,757,363
Customer deposits	64,101,856	-	64,101,856
Related party payables	2,860,208	-	2,860,208
Borrowings and managed funds	21,580,909	67,784,468	89,365,377
Other liabilities	8,001,287	-	8,001,287
Lease liabilities	3,680,261	7,733,676	11,413,937
Donor funds	1,711,361	2,798,567	4,509,928
Total liabilities	132,529,157	78,480,799	211,009,956
Net assets	90,620,336	(38,708,825)	51,911,511

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

41. ASSETS AND LIABILITIES MATURITY ANALYSIS (Continued)

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2021 to the contractual maturity date.

31 December 2021	Within 12 months	After 12 months	Total
Assets	Ushs '000	Ushs '000	Ushs '000
Cash and Bank with the central bank	1,666,322	1,000,000	2,666,322
Deposits due from other financial Institutions	36,410,270	-	36,410,270
Loans and advances to customers	136,432,243	7,237,363	143,669,606
Related party receivable	2,222,811	-	2,222,811
Tax recoverable	81,350	-	81,350
Work in progress	2,563,122	-	2,563,122
Property and equipment	-	12,373,353	12,373,353
Intangible assets	-	5,850,631	5,850,631
Right of use	-	11,022,430	11,022,430
Deferred tax asset	-	9,458,625	9,458,625
Other assets	2,662,423	-	2,662,423
Total assets	182,038,541	46,942,402	228,980,943
Financial liabilities			
Loan security fund	30,820,930	125,902	30,946,832
Customer deposits	65,676,141	-	65,676,141
Related party payables	39,344	-	39,344
Borrowings and managed funds	36,416,346	23,151,478	59,567,824
Other liabilities	5,717,663	-	5,717,663
Lease liabilities	111,578	12,111,975	12,223,553
Donor funds	2,536,179	1,685,869	4,222,048
Total liabilities	141,318,181	37,075,224	178,393,405
Net assets	40,994,608	9,867,178	50,861,786