



# ANNUAL REPORT 2020

BRAC UGANDA BANK LTD





*As long as social needs exist, we will keep on working, keep on learning, and keep striving to create an equitable future for all.*

Sir Fazle Hasan Abed KCMG  
Founder, BRAC  
1936-2019

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# Letter from THE BOARD CHAIRMAN



**Hon (rtd) Justice Augustine Kania**  
Board Chairperson  
BRAC Uganda Bank Limited

2020 will remain as an unforgettable year for many of us. The impact of the COVID-19 pandemic has altered the course of our lives and the planet itself. Millions of people have lost their lives. Millions more have lost their only form of livelihood. Like any catastrophe, the impact was more acutely felt by people living in poverty. It is estimated that 88 million to 115 million additional people will fall into extreme poverty this year due to the consequences of the pandemic.

In Uganda, the pandemic and subsequent lockdowns led to a slow-down of the economy in 2020. The Bank of Uganda intervened with COVID-19 relief measures to provide stimulus to businesses and cushion the economy. The government issued restrictions and lockdowns on public movement to help to curb the effect of the pandemic. BRAC Uganda Bank Ltd (BUBL) also implemented its own efforts to ensure the wellbeing of our staff and customers.

From the onset of the crisis, the immediate priority was to keep our customers and staff safe from the virus. We issued urgent health guidelines to all staff following public health directives, temporarily closed satellite offices, maintained a trimmed down workforce in the main branches, and implemented remote working procedures. In partnership with BRAC's social development programmes in Uganda, BUBL played a vital role in creating awareness amongst our clients and the wider communities about the virus. We engaged in relief activities for those living in vulnerable conditions. We remained on the ground and adapted our strategy as the situation evolved and kept constant communication with our staff and clients.

We also took initiatives for our clients to help them bear the economic shock of the pandemic. We provided payment holidays and rolled-out rescheduling and refinancing mechanisms

for vulnerable clients. After a year of the crisis, BUBL remains committed to promoting financial inclusion in Uganda and improving the financial resilience of people, especially women and those living in poverty.

BUBL has taken several initiatives to strengthen the internal systems and functions of the company to increase organisational efficiency and build a strong foundation for the future. In line with our mission, we have strengthened our commitment to ongoing practices of Social Performance Management and Client Protection and the measurement of client outcomes through impact surveys. Despite the pandemic in 2020, we completed our second impact survey using Lean Data<sup>SM</sup> methodology to measure our social impact and develop strategies to improve services and reach more people living in poverty.

We have intensified our digitization efforts in 2020. We have focused our efforts towards building digital channels such as mobile push and pull, agency banking, and alternative delivery channels that are expected to provide full benefits next year. As per our core strategic objectives, we have set systems in place to leverage internal learnings, industry best practices, and research for innovative product development. We have taken initiatives to strengthen our governance structure and internal policies to enable sustainable growth and expansion.

Amidst the pandemic, it was gratifying to receive the Bank of the Year award from the Government of Uganda, under the category of the financial sector, for contributing to poverty reduction and supporting women and youth with access to financial services. This award is the result of unwavering dedication of our staff of all levels - from management to our frontline credit officers. It will give us great motivation to continue to do more for our clients.

On behalf of the Board of Directors, I want to thank our partners, donors, and regulators for the confidence you have shown in us. The pandemic has made clear how critical our work is and we rely on your continued support in fulfilling our mission. Lastly, my heartfelt gratitude to all our clients who have kept faith in us to continue to serve them.

It is BRAC's belief that given the right resources, people living in poverty can change their own destinies. With our customer-focused values, our strong track record of delivery, and the dedication and commitment of our employees, we will continue to try to build a world where everyone has the opportunity to realise their potential.

# Message from THE MANAGING DIRECTOR



**JIMMY ONESMUS ADIGA**  
Managing Director  
BRAC Uganda Bank Limited

BRAC Uganda Bank Ltd (BUBL) received its license to operate as a Tier Two Credit Institution in March 2019. With the core banking system fully in place, we opened our doors to customers to start saving with us in June. We closed the year in a strong position after operating as a licensed bank for seven months.

Our outlook for 2020 looked great given the enthusiasm shown by our customers to bank with us until the COVID-19 pandemic took the world by storm. The profound impact of the pandemic on the global economy was also acutely felt by Uganda. The BUBL management team and our dedicated workforce on the ground quickly adopted measures to support our customers during these turbulent times and implemented several measures to respond to the crisis.

## Clients and Communities

We engaged with our clients to ensure their health and safety by disseminating awareness messages through various communications channels such as radio, SMS, and television. We suspended loan repayments for up to six months, offered a moratorium till the easing of the lockdown, and waived interest for the extended moratorium period. During the lockdown period when staff movements were restricted, we kept in touch with our customers via phone to assure them that BRAC is with them. We also provided refinancing and rescheduling options for clients to provide them economic relief and bounce back from the crisis. BUBL also contributed to the Presidential Call for Aid to the most affected sectors and families. We supplied 708 boxes of soap, conducted community sensitization, and provided cash relief through the Uganda Bankers Association.

## Staff and Institution

Recognising the importance of the wellbeing of our staff, we set up the e-HR clinics and provided free mental health counseling in partnership with medical providers. We distributed facemasks to all staff and placed hand washing kits, temperature guns, and sanitizers in all branches. We also disinfected our branches regularly and provided free COVID-19 testing facilities for staff. We continued to pay staff salaries and retained all staff throughout the lockdown period.

## Digitization

We are making strides towards our digitization aspirations so that we provide a better customer experience in today's digital world. BUBL has partnered with a global company to roll out the digital agency banking platform that will allow us to scale our point of sale rapidly without investing in costly branches and ATM networks, and also engage with a broader and remote customer base. In 2021, our focus will be to integrate Enterprise Service Bus with Core Banking System, pilot mobile banking systems, mobile push and pull implementation, and rolling out digital and financial literacy curriculum for clients.

## Sustainability and Impact

Due to the extended lockdown period, additional operational expenses, and the negative impact on the businesses of our customers, the bank made a net loss of UGX 27 billion in 2020. However, despite the required adjustment to our plan for 2020, BUBL has remained undeterred in its mission to provide financial services to people living in poverty, particularly women and populations living in rural and hard-to-reach areas.

We conducted our second impact survey in partnership with 60 Decibels using Lean Data<sup>SM</sup> methodology, a regular annual

*We engaged with our clients to ensure their health and safety by disseminating awareness messages through various communications channels. We also provided refinancing and rescheduling options for clients to provide them economic relief and bounce back from the crisis*

exercise to measure our social impact and develop strategies to improve services and reach more people living in poverty. The findings demonstrate the important role of BUBL in fulfilling a critical gap by providing access to finance to underserved communities. A remarkable 98% of customers said their quality of life had improved after engaging with BRAC, 97% of customers said that they earned more after engaging with BRAC and 90% of customers said that they could not find a better alternative than BRAC. The results show that access to financial services remains a critical tool for people living in poverty to improve their quality of life.

#### Looking ahead

We look forward to 2021 with optimism. The resilience demonstrated by our customers in the face of adversity gives us courage and confidence to aspire for a better future. In 2021 all attention, effort, and resources will be geared towards the restoration and preservation of the gains our customers had made during the pre-COVID period. This will be done through strengthening credit functions, implementing digital channels, creating systems efficiency, ensuring financial sustainability, timely and low-cost funding as well as talent and performance management.

#### Appreciation

I would like to thank our staff who have demonstrated strong commitment and resilience, and have continued to serve our customers during the pandemic. BUBL would have not made an impact on the lives of our customers without their unwavering effort. We are also grateful for the support of our partners - MasterCard Foundation, aBi Trust, CitiBank, FMO, Triodos, Global Partnerships, KIVA, Soluti Finance, WSBI, and many others, for standing with us in this time of need. To our Board of Directors, our shareholders, the BRAC International network and Bank of Uganda - your support and guidance have been paramount throughout the year. Lastly, I want to thank our customers whose loyalty to the bank cannot be doubted. Your love and spirit towards the bank fuel us to craft financial solutions that meet your needs and indeed enable you to do more.

*The resilience demonstrated by our customers in the face of adversity gives us courage and confidence to aspire for a better future. In 2021 all attention, effort, and resources will be geared towards the restoration and preservation of the gains our customers had made during the pre-COVID period.*

## VISION

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

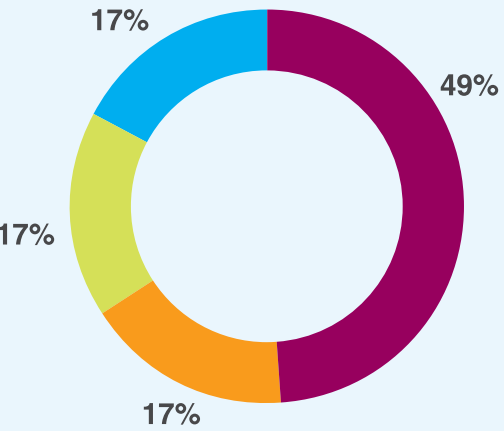
## MISSION

Our mission is to empower people and communities in situations of poverty, illiteracy, disease, and social injustice. Our interventions aim to achieve large scale, positive changes through economic and social programmes that enable men and women to realise their potential.

## VALUES

Integrity  
Innovation  
Inclusiveness  
Effectiveness

## BRAC Uganda Bank Ltd ownership structure



- BRAC International Holdings B.V.
- DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH)
- Equator Capital Partners
- Triple Jump

## BRAC INTERNATIONAL

Stichting BRAC International was formed in 2009 as a non-profit foundation in the Netherlands. It governs all entities outside Bangladesh with an objective to engage in charitable and social welfare activities in any country of the world.

## BRAC INTERNATIONAL HOLDINGS B.V.

BRAC International Holdings B.V. (BIHBV) was set up in 2010 as a private limited liability company and is a wholly-owned subsidiary of Stichting BRAC International. BIHBV is a socially responsible for profit organisation engaging people in sustainable economic and income-generating activities. The core focus of BIHBV is to provide microfinance services to people living in poverty to build financial resilience, contribute to women's economic empowerment and improve the quality of life in the communities it serves.

# BRAC INTERNATIONAL SAFEGUARDING ACHIEVEMENTS 2020

Safeguarding practices were initiated in BRAC from the very inception of the organisation. However, many of the practices were not formalised until 2019 when the organisation produced the overarching safeguarding policy and the five sub-set policies, namely:

- Child and Adolescent Protection policy
- Sexual Harassment Elimination policy
- Prevention of Workplace Bullying and Violence policy
- Adults with Special Needs policy
- Whistleblowing policy.

In 2020, all these policies were adapted in the BRAC International (BI) countries considering the country context and law

by review of the Country Management Team and vetting by a legal counsellor. The policies are now implemented in all the BI Country Offices, the Africa Regional Office in Kenya, and the Dhaka Office in Bangladesh. All staff members have received training and orientation on safeguarding and the five sub-set policies, along with guidelines on the reporting and response mechanism of the organisation. All BI offices now have a committee, known as the Human Resource Compliance Committee (HRCC), in place to review and address the complaints received in an appropriate manner. With awareness raising in all countries on safeguarding, whistleblowing and the reporting mechanism, the number of complaints lodged in 2020 spiked to a number of sixty-nine from only five in 2019.

STAFF TRAINING ON SAFEGUARDING IS AN ONGOING PROCESS. IT IS INCLUDED IN THE INDUCTION OF ANY NEW STAFF JOINING THE ORGANISATION. A NUMBER OF INITIATIVES WERE TAKEN TO MAINSTREAM SAFEGUARDING WITH OTHER KEY SYSTEMS OF THE ORGANISATION

-  An online e-course was developed in 2020 when classroom training could not take place due to the COVID-19 pandemic.
-  A safeguarding checklist was developed for programme design, safeguarding indicators were developed to include in the Audit Charter.
-  Monitoring Mechanism and risk management framework, and a checklist was developed to assess safeguarding practices in different BI Countries.

Some of the BI countries have started safeguarding awareness building for their programme participants and informed them of the contact details to report any incident violating the safeguarding policy. The safeguarding clause is included in partnership agreements and partners are also oriented on safeguarding and sub-set policies, procedures, and the reporting mechanism. Towards the end of 2020, BI reviewed the Sexual Harassment Elimination policy to incorporate the key elements of Protection of Sexual Exploitation and Abuse (PSEA). The revised policy was reviewed and vetted by UNICEF. The BI countries have also conducted a mapping exercise to locate service providers to support victims/survivors of safeguarding incidents.

Overall, a good attempt has been made to integrate safeguarding in various systems and processes within the organisation to contribute to building a safeguarding culture. However, a lot remains to be done and much more effort needs to be given in awareness building, incident reporting, case management, risk assessments, and capacity building. There are Safeguarding Focal Points in all the offices of BI who are working relentlessly to advocate and support safeguarding initiatives and ensure the safeguarding standards are met adequately.



# BRAC INTERNATIONAL MICROFINANCE

Following decades of experience and insight in delivering financial services to populations living in poverty in Bangladesh, BRAC first expanded its microfinance operations internationally in 2002 and now operates in six countries in Asia and Africa, serving more than 650,000 clients, 96% of whom are women.

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

We offer inclusive, accessible, and convenient loan and savings products, tailored to the needs of the local community. Our core credit products include group-based microloans provided exclusively to women, and small enterprise loans for entrepre-neurs seeking to grow their businesses. We are also exploring innovative solutions to fulfill the unique financial needs of rural small-holder farmers and the youth population.

In all our endeavours, we adhere to the industry's Universal Standards for Social Performance Management and the Client Protection Principles, placing clients' well-being at the center of everything we do to achieve our mission. We are committed

to enhance our clients' financial awareness through initiatives such as pre-disbursement orientations and financial literacy training. We regularly measure our social performance and desired client-level outcomes to improve our services and achieve long-term impact.

We are embracing financial technology by digitising field operations and adopting alternative delivery channels to increase operational efficiency and offer greater convenience to our clients. The client value proposition is at the core of our digital transformation efforts, with a particular emphasis on reducing the gap in women's digital financial inclusion.

BRAC believes that sustainable, large-scale change must address and deliver both economic and social progress. Since we started microfinance activities in Bangladesh in 1974, microfinance has been an integral part of BRAC's holistic approach to development, equipping people with the tools to invest in themselves, their families, and their communities.

# BRAC UGANDA BANK LTD MANAGEMENT AND GOVERNANCE

## Board of Directors

Hon (rtd) Justice Augustus Kania  
David T. Baguma  
Margaret Mary. N. Musana Akora  
Shameran Abed  
Hasina Akhter  
Orsolya Farkas  
Jimmy Onesmus Adiga  
William Mawejje

Chairperson  
Director  
Director  
Director  
Director  
Managing Director & Ex-officio  
Chief Operations Officer & Ex-Officio

## Country Management Team

Jimmy Onesmus  
William Mawejje  
Rose Namuddu  
John W. Nambale  
Tracy Bagonza  
Robert Mugabe Kusiima  
William Alemi Kenyi  
Arthur Byabishaija Nyakoojo  
Edward Mutyaba  
Claire Muyama Nataka  
Eva Nassazi  
Asif Malik Russd

CEO/ Managing Director  
Chief Operations Officer / Deputy Managing Director  
Chief Finance Officer  
Head of Legal and Company Secretary  
Compliance Manager  
Head of Banking Operations  
Head of Business Development and Strategy  
Head of ICT  
Head of Risk  
Head of Human Resource & Training  
Corporate Strategy Manager  
Head of Credit



OUR PARTNERS



The MasterCard Foundation



FMO  
Entrepreneurial  
Development  
Bank



BANK OF AFRICA  
GROUPE BANK OF AFRICA



signify



GRAMEEN CRÉDIT AGRICOL  
Microfinance Foundation



OIKO CREDIT  
in Menschen investieren



GLOBAL PARTNERSHIPS



WORLD BANK GROUP



KIVA



Strømme Foundation



THE GOVERNMENT OF THE GRAND DUCHY OF LUXEMBOURG



ABI TRUST



responsAbility



Triodos Investment Management



Soluti Finance  
East Africa



WSBI



PROGRAMME OVERVIEW

Country Situation

Uganda has made great progress in advancing financial inclusion in the country and the percentage of the population with access to formal financial services has more than doubled since 2011<sup>1</sup>. The recent National Financial Inclusion Strategy (NFIS), 2017-2022, further supports the financial sector development efforts to increase access to a wide variety of quality and affordable financial services in the country. Despite these initiatives, two thirds of Uganda’s adult population still do not have access to financial services<sup>2</sup>. Financial inclusion is even lower for women and for people living in poverty. Ugandan adults face a multitude of challenges to accessing critical financial services, including distance to bank branches, especially in rural areas, inadequate banking services, and high cost of financial services<sup>3</sup>.

Our Approach

BRAC began its microfinance operations in Uganda in 2006 as a social development programme of BRAC Uganda, our sister NGO entity. Following a successful history as the leading microfinance services provider in the country, we transformed into a Tier 2 Credit Institution to become BRAC Uganda Bank Ltd (BUBL) in 2019.

Our mission is to provide financial services responsibly to people at the bottom of the pyramid. We particularly focus on women living in poverty in rural and hard-to-reach areas to create self-employment opportunities, build financial resilience, and promote women’s entrepreneurial spirit by empowering them economically. Our core credit products include a group-based microloan provided exclusively to women, and small enterprise loans for entrepreneurs seeking to expand their

businesses. We also provide credit for adolescent girls from the ELA programme, and community health promoters of the health programme of BRAC’s NGO entity. We offer three types of savings products: Flex Save, a transactional account for borrowers and mid-to-low-income households; Wise Save, for formal and informal entrepreneurs, and salary-earners who wish to accumulate savings for a specific purpose; and Safe Save, for community-based savings and credit groups.

In all our endeavours, we adhere to the Universal Standards for Social Performance Management and the Client Protection Principles, placing customers’ well-being at the center of everything we do to achieve our mission.

Snapshot: Response to COVID-19

The COVID-19 pandemic has had a profound impact in the lives of our customers. BUBL took a three-stage approach to respond to the crisis.

In the relief phase, we collaborated with BRAC’s social development programmes to raise public awareness on COVID-19 through various engagement channels and one-on-one communication. We conducted rapid assessments to understand the impact of the pandemic in customers’ livelihoods and to plan our activities to support them better.

All staff received training on COVID-19 prevention and response, and protective gear to ensure their safety from the virus. We also arranged psychosocial support to maintain the physical and mental well-being of staff and established handwashing stations at all branches. In the relief phase, we granted customers a four-month payment holiday. During that time, we waived off loan

interests for all our customers and suspended loan collections to enable customers to withstand the shock of the pandemic. In the recovery phase, the focus was on restoring people’s livelihoods and economic situation that existed immediately prior to the onset of the crisis.

We provided loan rescheduling and refinancing options to customers who desired to extend their loan cycle and invest in new income generating activities to bounce back from the crisis. As at December 2020, 10,496 loans have been rescheduled and 7,167 loans have been refinanced, totalling USD 8.35 million. In the rebuild stage, we will focus on improving people’s economic and social situations at the individual and community levels by deepening financial inclusion through branch expansion, and by developing new products so that customers are in a stronger position going forward.

1.The Global Findex Database 2017  
2. The Global Findex Database 2017  
3. Report on banking and the status of financial inclusion in Uganda: Insights from FinScope 2018 Survey

Moving Forward

Alongside its mission and five-year strategic plan, BUBL will pursue to realise transformative impact through scaling-up of customised, client-centric products, digitisation of field operations, introduction of alternative delivery channels, and expansion into new, underserved territories. We will maintain our focus on social performance management initiatives and conduct impact assessments every year to set targets and define strategies to reach more people living in poverty and

achieve long-term impact at scale. Informed by the knowledge from past implementations, we plan to pilot a new client-centric agrifinance product for smallholder farmers and refine our existing products to meet customer needs post COVID-19. Driven by the aspiration to enhance operations in the ‘new normal’, we will pilot and to scale-up alternative delivery channels, such as mobile banking and agency banking, to provide greater convenience to our customers.



## Social Performance Results

We started to measure our social performance and desired customer-level outcomes from 2019 using Lean Data<sup>SM</sup> methodology on five social outcome focus areas of BRAC International Microfinance: quality of life, financial resilience, women's economic empowerment, self-employment and livelihood opportunities, and household welfare. This regular annual exercise complements our Social Performance Management and Client Protection initiatives, and enables us to set targets and define strategies to reach more people living in poverty to achieve long-term impact at scale. The second impact survey was completed in 2020 using Lean Data<sup>SM</sup> methodology in partnership with 60 Decibels. All respondents were women.

## Highlights from BUBL's 2020 Impact Survey:

98%

of customers said their quality of life had improved after engaging with BRAC

98%

of customers saved more  
after engaging with BRAC

97%

of customers said that they earned more after engaging with BRAC

95%

of customers planned  
their finances better after  
engaging with BRAC

90%

of customers said that they could not find a better alternative than BRAC

83%

of customers reported improved quality of meals after engaging with BRAC

## Operational Highlights as at December 2020

**96%** customers are women

**87%** outreach to people living in rural areas

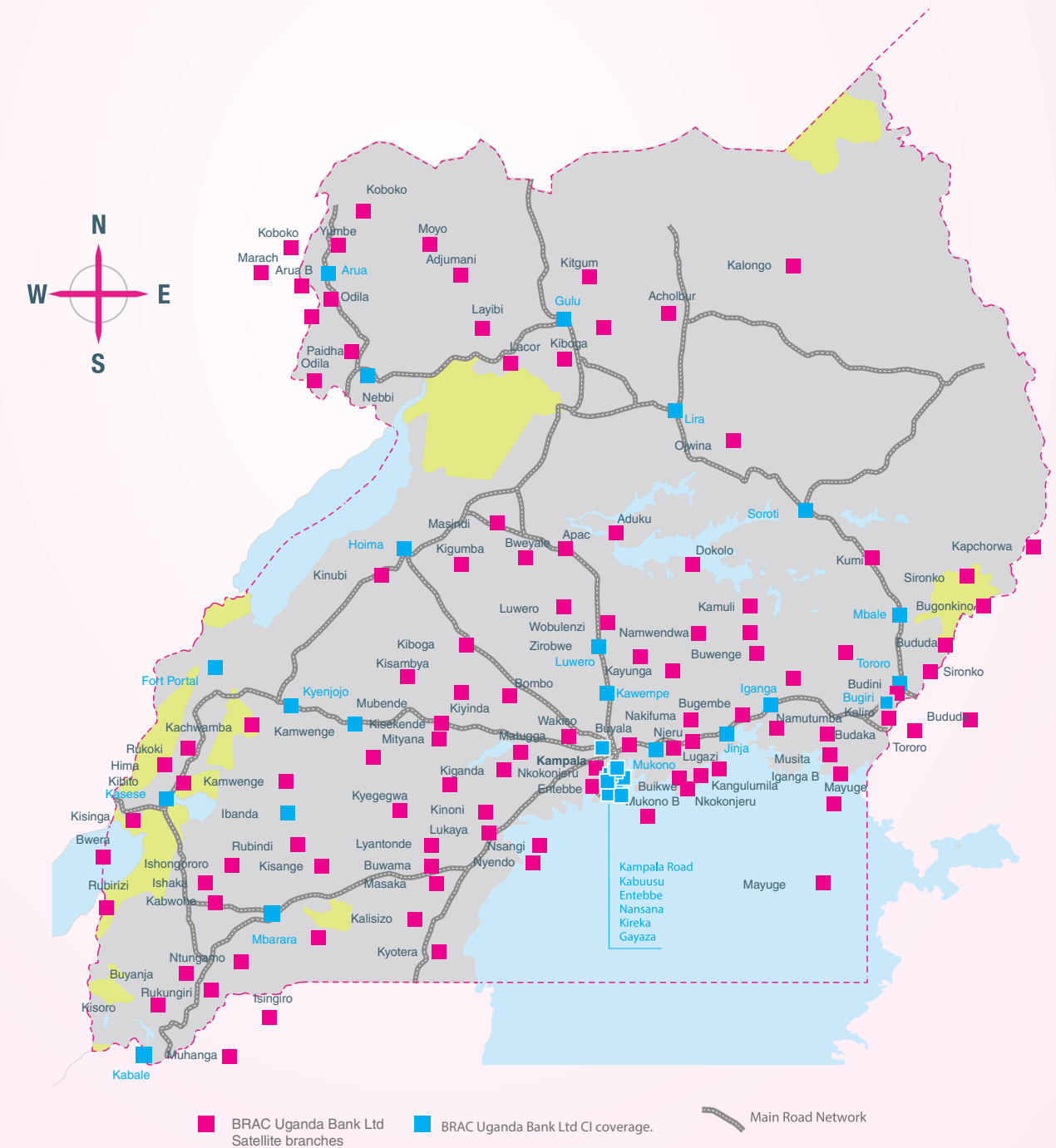
**50%** outreach to people living in poverty

**193,731** borrowers

162 locations

**USD 62.16** million disbursed in loans in 2020

**BRAC UGANDA BANK LTD FOOTPRINT SHOWING CI AND SATELLITE BRANCHES.**





## A determined entrepreneur

Nantaba Justine Kyakonye runs a small rented shop near St. Matia Mulumba Church of Old Kampala, Uganda. She sells art and decorative items such as rosaries, altar wine, candles, and bibles for people who attend church service but her sales fell drastically when all places of worship were closed due to the COVID-19 pandemic. Nantaba took her first loan from BRAC in 2014. “I was curious when I saw other women in the group meetings in my neighborhood. I received UGX 500,000 after all the paperwork was complete and invested the money to buy candle wax, a candle melter and heater”, said Justine.

“I used the money from my second loan to buy stock for my new shop”, said Nantaba, “Everything was going well until this pandemic”.

Seeing her sales fall, Nantaba decided to become a mobile money agent. She took advantage of the four-month payment holiday provided by BRAC to invest in her new venture. She also bought a fridge and started selling soft drinks, mineral water, and juice. When the lockdown was lifted and BRAC resumed its operation, Nantaba already had some money to clear her installments and apply for another loan of UGX 4,000,000.

“I have a savings account with BRAC where I deposit UGX 25,000 every Friday. Being a church choir leader, I also encourage other women of my group to save more”, said Nantaba.

Nantaba has six children and she is the main earner of her family. “I was able to send my children to school, two of whom are in senior six, and also build a house after engaging with BRAC”, said Nantaba, “I am also saving money for their higher education”. Nantaba's peers look at her as a role model and refer to her as “Mama BRAC” for having introduced them to the idea of regular savings.

*I have a savings account with BRAC where I deposit UGX 25,000 every Friday. Being a church choir leader, I also encourage other women of my group to save more*

# BRAC INTERNATIONAL PROGRAMMES



Our **Education programme** focuses on raising awareness on gender and child rights and developing a child-friendly learning atmosphere. Our programme complements the mainstream schooling system by supporting government primary and secondary schools to improve quality and strengthen capacity. We also provide training with support from local vocational and technical institutes.



Our **Early Childhood Development programme** is an investment towards breaking intergenerational cycles of poverty and facilitating economic growth. We provide early learning opportunities through our Play Labs to 3 to 6 year olds, with a low cost and playbased early learning model. Our Play Labs are safe play spaces, providing cost effective local learning materials to children in marginalised communities.



Through our **Youth Empowerment programme** we provide life-saving and lifetransforming services to adolescent girls to prevent unintended pregnancies, improve their awareness on harmful practices, and empower them financially. We create safe spaces by establishing clubhouses for girls aged 10-21, especially those who are vulnerable, dropped out of school, and at the risk of early marriage and pregnancy.



The **Ultra-Poor Graduation approach** is a comprehensive, time-bound, integrated and sequenced set of interventions that aim to enable extreme and ultra-poor households to achieve key milestones towards sustainable livelihoods and socio-economic resilience, in order to progress along a pathway out of extreme poverty



The **Agriculture, Food Security and Livelihood programme** focuses on four strategic directions - a) Strengthen pro-poor market systems, b) Make agriculture systems more resilient to climate change, c) Improve food and nutrition security, and d) Empower women and youth across the value chain.



Through our **Health programme** we partner with respective governments to reduce child mortality, improve maternal and child health, and combat diseases. We work at the community and facility level to strengthen the capacity of female community health volunteers, health workers, and doctors so that they can provide educational, preventive, and curative health services.



Through our **Emergency Preparedness and Response programme** we build local emergency preparedness and response capacities in communities, schools, and local governments. Using a participatory and inclusive approach, our interventions in urban, rural, and refugee settings prioritise the equitable participation of all groups, particularly women and youth, to ensure that they are able to mitigate risks, save lives, protect livelihoods, and build back better from disasters and crises



Through our **Microfinance programme**, we provide a range of financial services responsibly to people at the bottom of the pyramid. We particularly focus on women living in poverty in rural and hard to reach areas, to create selfemployment opportunities, build financial resilience, and harness women's entrepreneurial spirit by empowering them economically.

# BRAC ACROSS THE WORLD

**UK**  
Initiated: 2006  
An independent charity to raise profile and funds for BRAC globally

**USA**  
Initiated: 2007  
An independent charity to raise profile and funds for BRAC globally

**SIERRA LEONE**  
Initiated: 2008  
AFSL, YE, Health, EPRP, MF

**RWANDA**  
Initiated: 2018  
MF

**LIBERIA**  
Initiated: 2008  
AFSL, Education, YE, UPG, Health, MF

**UGANDA**  
Initiated: 2006  
AFSL, Education, ECD, YE, EPRP, Health, UPG-DI, MF

**TANZANIA**  
Initiated: 2006  
ECD, YE, WESOLVE, MF

**SOUTH SUDAN**  
Initiated: 2007  
AFSL

**NETHERLANDS**  
Initiated: 2009  
Stichting BRAC International registered as a foundation

**AFGHANISTAN**  
Initiated: 2002  
Education, Health, CCAP, CDP

**BANGLADESH**  
Initiated: 1972  
BEP, CC, CEP, GJD, HNPP, HRLS, IDP, MF, MG, SDP, SE, UDP, Uni, UPG, WASH, HCMP

**PHILIPPINES**  
Initiated: 2012  
Education, UPG

**MYANMAR**  
Initiated: 2013  
AFSL, EPRP, MF

**NEPAL**  
Initiated: 2015  
YE, SDP, Health, AFSL

**KENYA**  
Initiated: 2019  
Africa Regional Office

**AFSL:** Agriculture, Food Security and Livelihood  
**BEP:** BRAC Education Programme  
**CC:** Climate Change  
**CCAP:** Citizens' Charters Afghanistan Project  
**CEP:** Community Empowerment Programme  
**CDP:** Community Development Programme

**ECD:** Early Childhood Development  
**EPRP:** Emergency Preparedness and Response Programme  
**GJD:** Gender Justice and Diversity  
**HNPP:** Health, Nutrition and Population Programme  
**HRLS:** Human Resources and Legal Aid Services  
**HCMP:** Humanitarian Crisis Management Programme

**IDP:** Integrated Development Programme  
**MG:** Migration  
**MF:** Microfinance  
**SE:** Social Enterprises  
**SDP:** Skills Development Programme  
**UDP:** Urban Development Programme

**Uni:** University  
**WASH:** Water, Sanitation and Hygiene  
**UPG:** Ultra Poor Graduation  
**UPG-DI:** Ultra Poor Graduation-Disability Inclusive  
**WE SOLVE:** Women Entrepreneurship through Solar Value chain for Economic Development  
**YE:** Youth Empowerment

# BUBL PRODUCTS AND SERVICES



## BRAC AGRICULTURAL LOAN

A loan product delivered through BRAC’s existing group micro lending platform that’s meant to address the credit barriers farmers face while engaging in their routine agricultural activities.

### Features

- 1. Minimum loan amount of UGX 290,000
- 2. Maximum loan amount of UGX 1,450,000
- 3. Maximum loan tenor of 8 months
- 4. Interest is charge on a flat basis



## COMMUNITY HEALTH PROMOTER LOAN

Short term group-based loan product designed specifically to finance activities of Community Health Promoters (CHPs) of BRAC Uganda’s health programme.

### Features

- 1. First Cycle: Loan amount from a minimum of UGX 50,000 to a maximum of UGX 200,000
- 2. Second Cycle: Loan amount from a minimum of UGX 50,000 to a maximum of UGX 300,000
- 3. Maximum loan period of 3 months for First Cycle
- 4. Maximum loan period of 6 months for Second Cycle
- 5. Loan payment structure is equal monthly installments
- 6. Loan appraisal fee is 1% of the loan amount



## GROUP LENDING FOR ADOLESCENT GIRLS (Empowerment and Livelihood for Adolescent Girls)

Group micro business loan for the empowerment of adolescent girls between the ages of 16 - 25 aimed at providing them with a source of livelihood.

### Features

- 1. Minimum loan amount of UGX 200,000
- 2. Maximum loan amount of UGX 2000,000
- 3. Loan tenor of 20, 30, and 40 weeks
- 4. Weekly and bi-weekly payment structure
- 5. Interest charged on a flat basis



## MICRO-LOANS

Collateral-free micro-loans given exclusively to women through women’s groups. It’s targeted to women engaging in gainful economic activities to enable them run their businesses seamlessly to earn their daily livelihood.

### Features

- 1. Minimum loan amount of UGX 250,000
- 2. Maximum loan amount of UGX 250,000
- 3. Loan period of 20, 30, and 40 weeks
- 4. Equal weekly and bi-weekly payment structure
- 5. Interest charged on a flat basis



## SMALL ENTERPRISE LOANS

Loans for small enterprises underserved by mainstream financial institutions.

### Features

- 1. Minimum loan amount of UGX 250,000
- 2. Maximum loan amount of UGX 250,000
- 3. Loan period of 6, 9, and 12 months
- 4. Repayment structure of equal monthly instalments
- 5. Interest charged on a flat basis



## BRAC FIXED DEPOSIT ACCOUNT

This account enables its holder to invest their funds for a future return at attractive interest rates. It is available to individuals and entities in all business segments and is accessible to non BRAC Uganda Bank account holders. Interest rates are based on amount and tenor fixed, guided by market trends

### Features

- 1. Denominated in Uganda shillings (UGX)
- 2. Attracts interest rates accrued daily
- 3. Fixed interest rate during maturity period
- 4. Minimum interest earning balance is UGX 200,000



## BRAC FLEX ACCOUNT

Savings account with an unlimited number of transactions permitted throughout the month. The account targets both men and women above 18 years of age, enabling them to transact at a low cost.

### Features

- 1. Denominated in Uganda shillings (UGX)
- 2. Minimum balance of UGX 5,000
- 3. Monthly ledger fee of UGX 1,000



## BRAC SAFE ACCOUNT

Designed for voluntary savings and credit groups like VSLAs, ROSCAs, SACCOs, and other community-based savings groups or investment clubs.

### Features

- 1. Denominated in Uganda shillings (UGX)
- 2. Minimum balance of UGX 5,000
- 3. Attracts interest accrued daily
- 4. Cash withdraw fee of UGX 1,500 per withdraw
- 5. Minimum interest earning balance of UGX 500,000
- 6. Monthly ledger fee of UGX 5,000
- 7. Minimum cash opening deposit of UGX 50,000



#### BRAC WISE ACCOUNT

Savings account designed for clients who wish to accumulate savings for a specific purpose or target. It is suitable for individuals who desire to save towards acquiring assets, low and middle income earners, salaried employees, and other individuals who desire to save and earn interest.

##### Features

1. Denominated in Uganda shillings (UGX)
2. Minimum balance of UGX 5,000
3. Minimum interest earning balance of UGX 50,000



#### BRAC CORPORATE ACCOUNT

This is a high volume and value savings account designed for registered SMEs, NGOs and Corporate business entities. Holders can accumulate savings as well as originate transactions for payment processing and funds transfer.

##### Features

1. Denominated in Uganda shillings (UGX)
2. Minimum balance of UGX 100,000
3. Attracts interests on deposits accrued daily
4. Minimum interest earning balance of UGX 1,000,000
5. Attracts a monthly ledger fee of UGX 10,000

**Note:** Further information and detailed requirements to be provided separately

Visit any of our **163 BRAC Uganda Bank Ltd branches** to access our Loan Products or to open up a BRAC Account of your choice.

## SUMMARY FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2020

### Independent auditor's report on the summary financial statements to the members of BRAC Uganda Bank limited

#### Opinion

The summary financial statements, which comprise the summary statement of financial position as at 31 December 2020, the summary statement of comprehensive income for the year then ended, and other disclosures, are derived from the audited financial statements of BRAC Uganda Bank Limited ("the Bank") for the year ended 31 December 2020.

In our opinion, the accompanying summary financial statements are consistent, in all material respects with the audited financial statements, in accordance with the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda and the Financial Institutions (External Auditors) Regulations, 2010.

#### Summary Financial Statements

The summary financial statements do not contain all the disclosures required by the International Financial Reporting Standards, the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda and the Companies Act, 2012 Laws of Uganda. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

#### The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 30 April 2021. That report also includes the communication of 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.

#### Directors' Responsibility for the Summary Financial Statements

The directors are responsible for the preparation of the summary financial statements in accordance with the Financial Institutions Act, 2004 (as amended 2016) Laws of Uganda and the Financial Institutions (External Auditors) Regulations, 2010.

#### Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), "Engagements to Report on Summary Financial Statements."

#### KPMG

Certified Public Accountants

**3rd Floor,** Rwenzori courts

**Plot 2 & 4A,** Nakasero Road

**P O Box** 3509

Kampala, Uganda

**Date:** 30 April 2021

**1. SUMMARY STATEMENT OF THE FINANCIAL POSITION AS AT 31st DECEMBER 2020**

|                                                   | 2020               | 2019               |
|---------------------------------------------------|--------------------|--------------------|
|                                                   | Ushs '000          | Ushs '000          |
| <b>Assets</b>                                     |                    |                    |
| Cash and balances with Bank of Uganda             | 2,956,130          | 1,880,383          |
| Balances with banking institutions                | 52,414,717         | 30,114,453         |
| Related party receivables                         | 1,871,109          | 2,358,443          |
| Loans and advances to customer                    | 152,900,190        | 187,930,835        |
| Other assets                                      | 6,721,351          | 2,074,122          |
| Property and equipment                            | 27,157,689         | 29,429,913         |
| Intangible assets                                 | 5,114,567          | 5,482,294          |
| Deferred tax asset                                | 9,831,731          | -                  |
| <b>Total assets</b>                               | <b>258,967,484</b> | <b>259,270,443</b> |
| <b>Liabilities</b>                                |                    |                    |
| Customers' deposits                               | 84,391,348         | 53,011,674         |
| Related partry payables                           | 111,590,021        | 92,751,968         |
|                                                   | 4,071              | 776,133            |
| Other liabilities                                 | 23,716,345         | 18,992,424         |
| Tax payable                                       | 509,719            | 740,866            |
| Dividends payable                                 | -                  | 24,209,311         |
| Deferred tax liability                            | -                  | 1,785,721          |
| <b>Total liabilities</b>                          | <b>220,211,504</b> | <b>192,268,097</b> |
| <b>Shareholders' equity</b>                       |                    |                    |
| Share capital                                     | 43,000,000         | 43,000,000         |
| (Accumulated losses)/Retained earnings            | (4,244,020)        | 18,818,879         |
| Regulatory credit risk reserve                    | -                  | 639,292            |
| Proposed dividends                                | -                  | 4,544,175          |
| <b>Total shareholders' equity</b>                 | <b>38,755,980</b>  | <b>67,002,346</b>  |
| <b>Total liabilities and shareholders' equity</b> | <b>258,967,484</b> | <b>259,270,443</b> |

**II. SUMMARY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020**

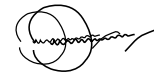
|                                          | 2020                | 2019              |
|------------------------------------------|---------------------|-------------------|
|                                          | Ushs '000           | Ushs '000         |
| <b>Income</b>                            |                     |                   |
| Interest on deposits and placements      | 6,123,077           | 3,629,803         |
| Interest on loans and advances           | 50,302,783          | 91,393,907        |
| Foreign exchange income                  | 454,677             | 358,765           |
| Fees and commission income               | 2,571,310           | 1,054,137         |
| Other income                             | 2,484,685           | 1,341,386         |
| <b>Total income</b>                      | <b>61,936,532</b>   | <b>97,777,998</b> |
| <b>Expenditure</b>                       |                     |                   |
| Interest expense on deposits             | 3,650,091           | 142,566           |
| Interest expense on borrowings           | 17,235,650          | 13,581,151        |
| Other interest expense                   | 2,574,639           | 3,055,281         |
| Expected credit loss on financial assets | 18,457,253          | 1,306,726         |
| Operating expenses                       | 58,271,048          | 63,976,311        |
| <b>Total expenditure</b>                 | <b>100,188,681</b>  | <b>82,062,035</b> |
| <b>Net (loss)/profit before tax</b>      | <b>(38,252,149)</b> | <b>15,715,963</b> |
| Income tax credit / (charge)             | 10,005,783          | (6,627,612)       |
| <b>Net (loss) / profit after tax</b>     | <b>(28,246,366)</b> | <b>9,088,351</b>  |
| Other comprehensive income               | -                   | -                 |
| <b>Total comprehensive (loss)/income</b> | <b>(28,246,366)</b> | <b>9,088,351</b>  |

**III. OTHER DISCLOSURES**

|                                              | 2020               | 2019               |
|----------------------------------------------|--------------------|--------------------|
|                                              | Ushs '000          | Ushs '000          |
| <b>Commitments</b>                           |                    |                    |
| Undrawn standby facilities                   | -                  | -                  |
| Undrawn credit lines                         | -                  | 14,800,000         |
| <b>Total</b>                                 | <b>-</b>           | <b>14,800,000</b>  |
| <b>Non-performing loans and other assets</b> |                    |                    |
| Non-performing loans and other assets        | 32,844,145         | 5,777,960          |
| Interest in suspense                         | 6,745,537          | 801,256            |
| Bad debts written off                        | 2,051,588          | 4,384,203          |
| Large loan exposures                         | -                  | -                  |
| Insider loan exposures                       | 1,127,770          | 65,181             |
| <b>Capital position</b>                      |                    |                    |
| Core capital                                 | 20,104,860         | 56,975,877         |
| Supplementary capital                        | 1,446,966          | 1,837,202          |
| <b>Total qualifying capital</b>              | <b>21,551,826</b>  | <b>58,813,079</b>  |
| <b>Total Risk Weighted Assets (RWA)</b>      | <b>198,234,732</b> | <b>230,627,565</b> |
| Core Capital to RWA                          | 10.14%             | 24.70%             |
| Total Qualifying Capital to RWA              | 10.87%             | 25.50%             |

**IV. MESSAGE FROM DIRECTORS**

The above summary Statement of Financial Position and summary Statement of Comprehensive Income are derived from the financial statements of BRAC Uganda Bank Ltd for the year ended 31 December 2020 which were audited by KPMG Certified Public Accountants and received an unmodified opinion. The financial statements were approved by the Board of Directors on 24 March 2021 and discussed with Bank of Uganda on 26 April 2021.



Hon (rtd) Mr Justice Augustus Kania  
Board Chairman



Mr. Jimmy Adiga  
Managing Director

BRAC Uganda Bank Ltd is a financial institution regulated by Bank of Uganda under License Number 7.

**BRAC UGANDA BANK LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**CORPORATE INFORMATION**

**DIRECTORS**

DIRECTORS

Hon (Rtd) Mr. Justice Augustus Kania\*\*  
 Mr. David Tumwesigye Baguma\*\*  
 Ms. Margaret Mary Musana Akora\*\*  
 Mr. Shameran Abed\*  
 Ms. Hasina Akhter \*  
 Ms. Orsolya Farkas\*\*\*  
 Mr. Albert Obongonyinge\*\*  
 Mr. Adiga Onesmus Jimmy\*\*  
 Mr. William Mawejje\*\*

Chairperson  
 Member  
 Member  
 Member  
 Member  
 Member (Appointed 29 September 2020)  
 Managing Director/CEO  
 Executive Director/COO (Appointed 29 September 2020)

\*Bangladeshi      \*\* Ugandan      \*\*\*Hungary

**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:**

John Nambale  
 P.O. Box 6582 Kampala, Uganda

**AUDITOR:**

KPMG  
 Certified Public Accountants 3rd Floor, Rwenzori Courts Plot 2 & 4A,  
 Nakasero Road  
 P.O. Box 3509 Kampala, Uganda

**BANKERS**

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

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

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

Pride Microfinance Victoria Office Park  
 Block B, Bukoto Kampala, Uganda

PostBank Uganda Limited  
 Plot 4/6 Nkurumah road  
 P. O Box 7189

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

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

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

Tropical Bank  
 Plot 27 Kampala Road  
 P.O Box 9485 Kampala, Uganda

DIRECTORS' REPORT

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 2020, 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 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.

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.

DIRECTORS' REPORT (Continued)

(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.

(H) CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital based on requirements contained in the Financial Institutions Act. As at 31 December 2020 the Bank’s regulatory ratios were as follows:

|                                     | 2020        | 2019        |
|-------------------------------------|-------------|-------------|
|                                     | Ushs’000    | Ushs ‘000   |
| Tier 1 Capital                      | 20,104,860  | 56,975,877  |
| Tier 2 Capital                      | 1,446,966   | 1,837,202   |
| Total tier 1 + tier 2 capital       | 21,551,826  | 58,813,079  |
| Total risk weighted assets          | 198,234,732 | 230,627,565 |
| Tier 1 capital ratio (Required 10%) | 10.14%      | 24.70%      |
| Tier 2 capital ratio (Required 12%) | 10.87%      | 25.50%      |

Contrary to Regulation 7(1) of the Financial Institutions (Capital Adequacy Requirements) Regulation 2018, the Bank’s Total Capital ratio fell below the minimum requirements of 12% by 1.13%. Refer to note 4 for details of the breach.

Further information about capital adequacy is disclosed in Note 32(b) of the financial statements.

(I) COMPOSITION OF DIRECTORS

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

(J) DIRECTORS BENEFIT

During the year the directors received Ushs 242 million as sitting allowances (2019: Ushs140 million).

(K) 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.

DIRECTORS’ REPORT (Continued)

In 2020 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      |

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 2020.

| Meeting                                    | Composition | Meetings held |
|--------------------------------------------|-------------|---------------|
| Full Board                                 | 9           | 4             |
| Assets and Liabilities Committee           | 4           | 4             |
| Human Resources and Compensation Committee | 2           | 4             |
| Audit Committee                            | 3           | 4             |
| Credit and Risk Committee                  | 3           | 4             |
| Social Performance Committee               | 3           | 0             |

(L) RISK MANAGEMENT

The risk management framework of the Bank is disclosed in note 32 to the financial statements

(M) 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
- 2. Credit
- 3. Internal Audit
- 4. Compliance
- 5. Banking Operations
- 6. Information and Communication Technology
- 7. Human Resource and Training
- 8. Business Development and Strategy
- 9. Procurement, Logistics and administration
- 10. Legal and Company Secretarial
- 11. Risk Management

(N) RELATED PARTY TRANSACTIONS

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

DIRECTORS’ REPORT (Continued)

(O) FUTURE DEVELOPMENT PLANS

The focus of 2021 is on the recovery of the core business activities (loans and savings) through refinancing, restructuring, loan collections, and savings mobilization. All attention, effort and resources (personnel and finances) will be geared towards restoration and preservation of the gains made during the pre-COVID period. Further, post-transformation, and pre-COVID challenges will also be a subject of focus. The specific projects to support the recovery plan include;

- 1. Pilot and begin the Scale-up of Mobile push and pull (subject to Regulatory approval)
- 2. Review business procedures for process improvement to ensure quality, growth and improved turnaround time
- 3. Undertake systems efficiency enhancements to enhance availability and quality.
- 4. Implementation of Basel II Capital Accord to enhance the bank’s resilience for the entire spectrum of risks to which it is exposed.

(P) KEY ACHIEVEMENTS IN 2020 TO DATE

- Extended loan moratorium to all the bank’s customers at no extra cost in the heat of COVID-19 lockdown as part of the credit relief measures to support the customers and their business recovery from the COVID-19 impact.
- Made strides in customer service excellence as indicated by the net promoter score improvement from 33 to 73 (Lean Data Survey, 2020)
- Completed set up of a new service location in Soroti (despite the COVID -19 challenges}, to expand our outreach to the underserved.
- Enhanced internal controls through automations to serve our clientele better, implemented the HRISand Audit system.

(Q) 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.

(R) GENDER PARITY

As at 31 December 2020, the Bank had 2,097 staff (2019: 2,140 staff). The female staff were 83% (84% in 2019).

(S) EMPLOYEES’ WELFARE

Management of employee relationship

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 understand clearly 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

Training and development of staff is one of the key priorities of the Bank. This year a number of staff attended various trainings and some of these trainings include; Delinquency Management and credit appraisal, Customer Care, Microfinance Management Course, Small Enterprise Analysis. Safeguarding policies and procedures, Culture Transformation, Projects Management Training (Agile), Psycho - social Support, Resumption of Bank Operations Guidelines, Velocity Training, Change Management Training (Agile), IFRS 9, Refresher in Risk management and Agency banking management.

DIRECTORS' REPORT (Continued)

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.

Retirement benefits

All eligible employees are members of the National Social Security Fund (NSSF).The Bank contributes10% 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

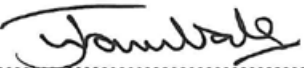
(T) AUDITOR

The Bank's auditors KPMG certified Public Accountants having served a continuous period of 4 years will not be eligible for re-appointment in line with the Financial Institutions Act 2004 (as amended 2016) Laws of Uganda. The Directors recommend the appointment of Ernst & Young Certified Public Accountant for the year 2021 in line with section 62 (1) of the Financial Institutions Act 2004 (as amended 2016) Laws of Uganda.

(U) APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the directors at a meeting held on 24 March 2021.

By order of the Board

Signed: 

Date: 30 APRIL 2021

SECRETARY

BRAC UGANDA BANK LIMITED  
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the financial statements of BRAC Uganda Bank Limited (the "Bank") set out on pages 14 to 87, which comprise the statement of financial position as at 31 December 2020, the statement of comprehensive income, the 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 and other explanatory notes, in accordance with International Financial Reporting Standards, the Financial Institutions Act 2004 (as amended 2016) Laws of Uganda and the Companies' Act, 2012 Laws of Uganda.

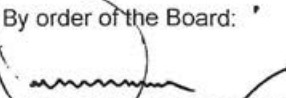
The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

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 give a true and fair view in accordance with the International Financial Reporting Standards (IFRSs), Companies Act, 2012 Laws of Uganda and Financial Institutions Act 2004 (as amended 2016) Laws of Uganda.

Approval of the financial statements

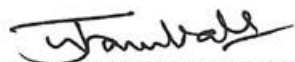
The financial statements, as indicated above, were approved and authorized for issue by the board of directors on 24 MARCH 2021.

By order of the Board:   
Chairperson, Board of Directors

  
Managing Director

Date: 30 APRIL 2021

  
Director

  
Company Secretary



**KPMG**  
**Certified Public Accountant of Uganda**  
 3rd Floor, Rwenzori Courts  
 Plot 2 & 4A, Nakasero Road  
 P O Box 3509  
 Kampala, Uganda  
 Reg No. AF0026

Tel +256 312 170 080/1  
 Fax +256 414 340 318  
 Email [info@kpmg.co.ug](mailto:info@kpmg.co.ug)  
 Website [www.kpmg.com/eafrica](http://www.kpmg.com/eafrica)

## Independent auditor's report

### To the Members of BRAC Uganda Bank Limited

#### Report on the Audit of the financial statements

##### Opinion

We have audited the financial statements of BRAC Uganda Bank Limited ("the Bank") set out pages 14 to 87, which comprise the statement of financial position as at 31 December 2020, and the statements 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 and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BRAC Uganda Bank Limited as at 31 December 2020, and of its financial performance and its cash flows for the year then ended 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.

##### 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 "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 judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements taken as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Independent auditor's report

### To the Members of BRAC Uganda Bank Limited

#### Report on the Audit of the Financial Statements (Continued)

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                   | How the matter was addressed in our audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Expected credit loss loans and advances to customers</b>                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Refer to notes 3(a(i)), 3(p(vii)), 15 and 32(c) (Credit risk) to the financial statements</b>                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Impairment of loans and advances to customers is based on the Expected Credit Loss (ECL) model and is considered a key audit matter because the Bank makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment.                                                                                                                   | Our audit procedures in this area included:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| The COVID-19 pandemic is affecting the economy and business activities in the country and may trigger an economic decline. To mitigate the impacts of COVID-19, the Bank implemented various measures e.g. according moratoria and restructuring of loans. All these aspects have an impact on the parameters considered by the Bank when quantifying the expected credit loss on loans and advances to customers. | <ul style="list-style-type: none"> <li>— Evaluating the ECL calculations to check if the correct parameters – Probability of Default (PDs, Loss Given Default (LGDs), and Exposure at Default (EADs) are determined by considering local economic conditions.</li> <li>— Involving our own data and analytics specialists in evaluating the appropriateness of the Bank's PD methodology and independently assessing its accuracy;</li> <li>— Involving our own financial risk management specialists in assessing the appropriateness of the Bank's methodology for determining the economic scenarios used and the probability weightings applied to them including assessing the overall reasonableness of the economic forecasts applied by the Bank by involving our specialists in the reperformance of PDs and review of the economic forecasts;</li> <li>— Evaluating the appropriateness of the Bank's IFRS 9 assumptions and key judgements with regards to SICR criteria used by testing for consistency with the requirements of IFRS 9 by assessing the qualitative and quantitative factors used by the Bank in the evaluation of the classification of stages 1,2 and 3;</li> <li>— Testing of a sample of key data inputs like historical loans and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts, PD assumptions LGD and EAD applied by management;</li> <li>— Assessing whether the disclosures appropriately present the key judgements and assumptions used in determining the expected credit losses in accordance with IFRS 7 <i>Financial Instruments: Disclosures</i>; and</li> <li>— Evaluating the Bank's assessment of the impact of COVID-19 on the ECL model.</li> </ul> |
| The key areas where we identified greater levels of judgement and therefore increased levels of audit focus in the Bank's implementation of IFRS 9 are:                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Model estimations</b><br>Inherently, judgmental modelling is used to estimate Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL).                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Economic scenarios</b><br>IFRS 9 Financial Instruments requires the Bank to measure Expected Credit Loss (ECL) on a forward-looking basis reflecting a range of future economic conditions. Significant judgement is applied to determining the economic scenarios used and the probability weightings applied to them and the associated impact on ECL.                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Significant Increase in Credit Risk ('SICR')</b><br>For the loans to customers, the criteria selected to identify a significant increase in credit risk is a key area of judgment within the Bank's ECL calculation as these criteria determine whether a 12-month or lifetime expected credit loss is assessed.                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |



## Independent auditor's report

### To the Members of BRAC Uganda Bank Limited

#### Report on the Audit of the Financial Statements (Continued)

##### Other information

The directors are responsible for the Other Information. The Other Information comprises the information included in the *BRAC Uganda Bank Limited Annual Report and Financial Statements for the year ended 31 December 2020*, but does not include the financial statements and our auditor's report thereon.

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

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 performed, we conclude that there is a material misstatement of this Other Information, then we are required to report that fact. We have nothing to report in this regard.

##### Directors' responsibilities for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with 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 and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, directors are responsible for assessing the 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 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 issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



## Independent auditor's report

### To the Members of BRAC Uganda Bank Limited

#### Report on the Audit of the Financial Statements (Continued)

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

- Conclude on the appropriateness of 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 directors 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.

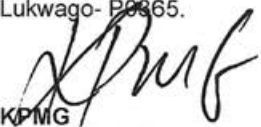
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation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

##### Report on Other Legal and Regulatory requirements

As required by the Companies Act, 2012 Laws 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 considered necessary for the purposes of our 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 statements of financial position and comprehensive income are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is CPA Asad Lukwago- B0065.

  
 KPMG  
 Certified Public Accountants  
 3<sup>rd</sup> floor, Rwenzori Courts  
 Plot 2 & 4A Nakasero Road  
 P O Box 3509  
 Kampala, Uganda

Date: 30 April 2021

  
 CPA Asad Lukwago

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

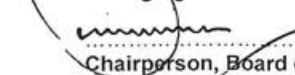
|                                                  |        | 2020                | 2019              |
|--------------------------------------------------|--------|---------------------|-------------------|
|                                                  | Note   | Ushs '000           | Ushs'000          |
| Interest income on loans and advances            | 5      | 50,302,783          | 91,393,907        |
| Other interest income                            | 6      | 6,123,077           | 3,629,803         |
| Interest expense on borrowings                   | 7(a)   | (17,079,070)        | (13,287,312)      |
| Other finance costs                              | 7(b)   | (6,381,310)         | (3,491,686)       |
| <b>Net Income from service charge</b>            |        | <b>32,965,480</b>   | <b>78,244,712</b> |
| Membership fees and other charges                | 8      | 4,730,232           | 1,574,142         |
| Net finance income                               | 9      | 454,677             | 358,765           |
| <b>Net trading income</b>                        |        | <b>38,150,389</b>   | <b>80,177,619</b> |
| Expected credit loss on financial assets         | 16     | (18,457,253)        | (1,306,726)       |
| <b>Operating income after impairment charges</b> |        | <b>19,693,136</b>   | <b>78,870,893</b> |
| Grant income                                     | 27.4/5 | 325,763             | 821,381           |
| Staff costs                                      | 10     | (34,941,173)        | (34,994,691)      |
| Other operating expenses                         | 11     | (16,273,319)        | (23,166,681)      |
| Depreciation of property and equipment           | 19     | (3,839,430)         | (3,408,307)       |
| Amortization of software                         | 21     | (661,872)           | (577,782)         |
| Depreciation of right of use asset               | 22(i)  | (2,555,254)         | (1,828,850)       |
| <b>(Loss)/Profit before tax</b>                  |        | <b>(38,252,149)</b> | <b>15,715,963</b> |
| Income tax creditU(expense)                      | 12.1   | 10,005,783          | (6,627,612)       |
| <b>Net (loss)/profit for the year</b>            |        | <b>(28,246,366)</b> | <b>9,088,351</b>  |
| Other comprehensive income                       |        |                     |                   |
| <b>Total comprehensive income</b>                |        | <b>(28,246,366)</b> | <b>9,088,351</b>  |

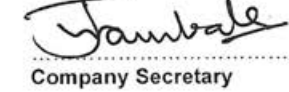
The notes set out on pages 19 to 87 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER2020

|                                         | Note    | 2020<br>Ushs '000  | 2019<br>Ushs'000   |
|-----------------------------------------|---------|--------------------|--------------------|
| <b>ASSETS</b>                           |         |                    |                    |
| Cash and balances with the central bank | 13      | 2,956,130          | 1,880,383          |
| Deposits and balances due from banks    | 14      | 52,414,717.        | 30,114,453         |
| Loans and advances to customers         | 15      | 152,900,190        | 187,930,835        |
| Other assets                            | 18      | 3,231,640          | 1,963,787          |
| Related party receivable                | 17(1)   | 1,871,109          | 2,358,443          |
| Deferred tax asset                      | 12(2)   | 9,831,731          | -                  |
| Property and equipment                  | 19      | 15,187,482         | 17,674,218         |
| Right of use of asset                   | 22(i)   | 11,970,207         | 11,755,695         |
| Work in progress                        | 20      | 3,489,711          | 110,335            |
| Intangible assets                       | 21      | 5,114,567          | 5,482,294          |
| <b>Total assets</b>                     |         | <b>258,967,484</b> | <b>259,270,443</b> |
| <b>LIABILITIES AND EQUITY</b>           |         |                    |                    |
| <b>Liabilities</b>                      |         |                    |                    |
| Loan security fund                      | 23      | 33,159,712         | 34,460,912         |
| Deposits from customers                 | 24      | 51,231,636         | 18,550,762         |
| Related party payables                  | 17( 2)  | 4,071              | 24,985,444         |
| Borrowings                              | 25      | 111,590,021        | 92,751,968         |
| Other liabilities                       | 26      | 5,652,917          | 6,674,395          |
| Donor funds                             | 27      | 5,154,679          | 406,548            |
| Lease liability                         | 22(iii) | 12,908,749         | 11,911,481         |
| Deferred tax liability                  | 12(2)   | -                  | 1,785,721          |
| Tax payable                             | 12(3)   | 509,719            | 740,866            |
| <b>Total liabilities</b>                |         | <b>220,211,504</b> | <b>192,268,097</b> |
| <b>Equity</b>                           |         |                    |                    |
| Share capital                           | 28      | 43,000,000         | 43,000,000         |
| (Accumulated loss)/Retained earnings    |         | (4,244,020)        | 18,818,879         |
| Regulatory credit risk reserve          | 35      | -                  | 639,292            |
| Proposed dividends                      | 29      | -                  | 4,544,175          |
| <b>Total Equity</b>                     |         | <b>38,755,980</b>  | <b>67,002,346</b>  |
| <b>Total liabilities and Equity</b>     |         | <b>258,967,484</b> | <b>259,270,443</b> |

The financial statements on pages 14 to 87 approved and authorised for issue by the Board of Directors on 24 MARCH 2021 and were signed on its behalf by:

  
Managing Director  
  
Chairperson, Board of Directors

  
Company Secretary  
  
Director

The notes set out on pages 18 to 87 form an integral part of these financial statements.

**BRAC UGANDA BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020**

|                                            | Share Capital     | Retained Earnings  | Proposed Dividends | Regulatory credit risk reserve | Total equity        |
|--------------------------------------------|-------------------|--------------------|--------------------|--------------------------------|---------------------|
|                                            | Ushs'000          | Ushs '000          | Ushs'000           | Ushs'000                       | Ushs'000            |
| At 1 January 2019                          | 43,000,000        | 15,780,662         | -                  | -                              | <b>58,780,662</b>   |
| IFRS 16 adjustment                         | -                 | (704,638)          | -                  | -                              | <b>(704,638)</b>    |
| Impact of deferred tax on assets           | -                 | (162,029)          | -                  | -                              | <b>(162,029)</b>    |
| Profit for the year                        | -                 | 9,088,351          | -                  | -                              | <b>9,088,351</b>    |
| Proposed dividend                          | -                 | (4,544,175)        | 4,544,175          | -                              | -                   |
| Transfer to regulatory credit risk reserve | -                 | (639,292)          | -                  | 639,292                        | -                   |
| <b>At 31 December 2019</b>                 | <b>43,000,000</b> | <b>18,818,879</b>  | <b>4,544,175</b>   | <b>639,292</b>                 | <b>67,002,346</b>   |
| At 1 January 2020                          | 43,000,000        | 18,818,879         | 4,544,175          | 639,292                        | <b>67,002,346</b>   |
| Profit for the year                        | -                 | (28,246,366)       | -                  | -                              | <b>(28,246,366)</b> |
| Proposed dividend                          | -                 | 4,544,175          | (4,544,175)        | -                              | -                   |
| Transfer to regulatory credit risk reserve | -                 | 639,292            | -                  | (639,292)                      | -                   |
| <b>At 31 December 2020</b>                 | <b>43,000,000</b> | <b>(4,244,020)</b> | <b>-</b>           | <b>-</b>                       | <b>38,755,980</b>   |

**STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2020**

|                                                             | Note          | 2020<br>Ushs '000  | 2019<br>Ushs '000  |
|-------------------------------------------------------------|---------------|--------------------|--------------------|
| <b>Net cash inflow from operating activities</b>            | <b>30</b>     | <b>6,744,337</b>   | <b>(3,243,405)</b> |
| <b>Cash flow from investing activities</b>                  |               |                    |                    |
| Acquisition of fixed assets                                 | <b>19</b>     | (1,132,306)        | (6,339,012)        |
| Acquisition of soft ware                                    | <b>21</b>     | (76,424)           | (503,250)          |
| Investment in work in progress                              | <b>20</b>     | (3,824,731)        | (110,335)          |
| <b>Net cash out flow from investing activities</b>          |               | <b>(5,033,461)</b> | <b>(6,952,597)</b> |
| <b>Cash flow from financing activities</b>                  |               |                    |                    |
| Receipts from borrowings and managed funds during the year  | <b>25.1</b>   | 48,925,480         | 25,560,687         |
| Loan repayments during the year                             | <b>25.1</b>   | (30,964,986)       | (13,101,419)       |
| Principle payment of lease liabilities                      | <b>22(ii)</b> | (1,793,781)        | (2,377,700)        |
| Donor funds transfer to BRAC NGO                            | <b>27.4</b>   | (479,435)          | -                  |
| Receipts of donor funds                                     | <b>27.2</b>   | 5,553,329          | -                  |
| <b>Net cash inflow from financing activities</b>            |               | <b>21,240,607</b>  | <b>10,081,568</b>  |
| <b>Net Increase/(decrease) in cash and cash equivalents</b> |               | <b>22,951,483</b>  | <b>(114,434)</b>   |
| Cash and cash equivalents at 1 January                      |               | 17,881,470         | 17,995,904         |
| Increase/(decrease) in cash and cash equivalents            |               | 22,953,284         | (114,048)          |
| Effects of movement in exchange rates on cash held          |               | (1,801)            | (386)              |
| <b>Cash and cash equivalents at 31 December</b>             | <b>31</b>     | <b>40,832,953</b>  | <b>17,881,470</b>  |

The notes set out on pages 19 to 87 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 the historical cost convention, except for the fair valuation of certain financial instruments.

(ii) Functional and presentation currency

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 32 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) Income tax

Income tax expense comprises 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.

(iv) 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. 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.

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 mount of its assets and liabilities.

(v) Right of Use Asset

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 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.

*(vi) Useful life of property and equipment*

Property and equipment is depreciated over its useful life 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.

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

*(ii) With the Bank as lessor*

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss account on a straight-line basis over the lease term.

*(iii) 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.

*(iv) 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:-

|                                           |                                                                 |
|-------------------------------------------|-----------------------------------------------------------------|
| Motor vehicles, motor cycles 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. |

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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

**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) 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 is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated on the basis of tax rates currently enacted.

**i) Revenue recognition**

Revenue is recognized on an accrual's 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 goods or 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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

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.

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 months.

**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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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.

**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 - Policy applicable from 1 January 2018

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.

*(iii) Business model assessment*

The Bank makes an assessment of 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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 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.

**Financial liabilities**

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

*(iv) Modification s of financial assets and financial liabilities 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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 derecogniiton.

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 derecognises 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, includingthe 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.

(v.) 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 realis 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account 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.

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 cash flow 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:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

- 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

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.

Life-time 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 estimates 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 commitments 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.

(vii) Impairment

- If the expected restructuring will result in derecogniiton 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 reorganisation; or

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

- the disappearance of an active market for a security because of financial difficulties.

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 air 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.

(viii) Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise. Before 1 January 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

q) Adoption of new and revised standards

ii) New standards, amendments and interpretations issued and adopted by the Bank

The following new or revised standards, amendments and interpretations are effective for the year ended 31 December 2020 and have been applied in preparing these financial statements where applicable.

The Bank did not early adopt any standards or amendments.

Definition of a business IFRS 3 Business Combinations - amendment (1 January 2020 with earlier application permitted)

Defining a business is important because the financial reporting requirements for the acquisition of a business are different from

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

In October 2018 the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments:

Confirm that a business must include inputs and a process and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs.

Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and

Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

The amendment is not expected to have a significant impact on the financial statements of the Bank.

Definition of Materiality (Amendments to IAS 1 and IAS 8)

The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material which is quoted below from the final amendments.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change - the refinements are not intended to alter the concept of materiality.

The amendment is not expected to have a significant impact on the financial statements of the Bank.

Amendments to References to Conceptual Framework in IFRS Standards

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definitions of an asset and a liability, and guidance supporting these definitions; and
- Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IF S requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs. The amendment is not expected to have a significant impact on the financial statements of the Bank.

Interest rate Benchmark reform {Amendments to IFRS 9, IAS 39 and IFRS 7)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

The amendments are effective from 1 January 2020. Early application is permitted.

The amendment is not expected to have a significant impact on the financial statements of the Bank.

IFRS 16 - Leases - COVID-19 modifications

On May 28, 2020, the IASB issued an amendment to IFRS 16 to provide a practical relief for lessees in accounting treatment for rent concessions that occur due to COVID-19 with effective date from June 1, 2020.

In the light of the effects of the COVID-19 pandemic, and the fact that many lessees are applying the standard for the first time in their financial statements, the Board provided an optional practical expedient for lessees.

Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications.

Rent concessions are eligible for practical expedient if they occur as a direct consequence of COVID-19 pandemic and if all of the following criteria are met;

- the change in lease payments result in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- any reduction in lease payments affects only payments originally due on or before 30th June, 2021; and
- there is no substantive change to the other terms and conditions of the lease.

The amendment is not expected to have a significant impact on the Financial Statements of the Bank.

(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, 2020. 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.

IFR S 17 Insurance Contracts

IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:

- Reinsurance contracts held;
- Direct participating contracts; and
- Investment contracts with discretionary participation features.

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.

The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity's financial statements.

The Bank is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements.

The standard is effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted. The amendment

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

is not expected to have any impact on the financial statements of the Bank.

**Amendments to IAS 1: Classification of Liabilities as Current or Non-Current; (Effective for annual periods beginning on after 1 January 2022)**

The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position - not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the “right” to defer settlement by at least twelve months and make explicit that only rights in place “at the end of the reporting period” should affect the classification of a liability;
- Clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- Make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

**4. GOING CONCERN**

The Bank incurred a net loss of Ushs 28 billion as at 31 December 2020, and as of that date the Bank’s Total Capital ratio went below the required ratio of 12% by 1.13%. The loss and the breach of regulatory capital arose from increase in the Expected Credit Losses on Loans and Advances to Customers.

The Government's measures put in place to contain the spread of COVID 19, which included the closure of businesses, ban on public gatherings and public transport severely impacted the Bank operations given that over 90% of the Bank’s borrowers are part of group lending that require regular physical meetings between group members and the field staff.

The Bank suspended field operations during the lockdown and granted moratorium of up to 4 months in line with Central Bank credit relief guidelines without charging additional interest to clients for the extended repayment period. This coupled with low or no disbursement impaired income growth for the year. Additionally, due to the negative impact of COVID 19 on clients’ business cash flows leading to inability to pay back on time. With the short-term nature of the loan portfolio, the Bank experienced high default rates leading to high loan loss provisions for the year.

The high provisions had a negative effect on the overall results of the Bank in 2020 and as such, decreased its capital levels as at 31 December 2020 to just below the FIA Regulatory requirement on Total Capital.

The directors have assessed the ability of the Bank to continue as a going concern by implementing the following strategies:

- The Bank has put in place strategies for restoring the capital levels which include fast tracking of the improvement in portfolio quality through aggressive recovery,
- Implementation of the credit relief guidelines to support struggling customers and cautiously growing the loan portfolio.
- The shareholders have also committed to the capital restoration plan including among others the conversion senior debt to subordinated debt to improve the total capital.

Subsequently,

- The Bank’s loan book has started recovering and the provisions have subsequently gone down to Ushs

16.5 billion and Ushs 14.5 billion as at January and February 2021 respectively.

- The FIA regulatory requirement total capital ratios for the month of January and February 2021 were 12.37% and 12.7% respectively which are above the required total capital ratio of 12%.
- On 22 December 2020 BRAC International approved the conversion of senior debt amounting to USD 1,725,703 to subordi-

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

nated debt. In a letter dated 18 March 2021, BRAC Bank Uganda limited wrote to Bank of Uganda requesting to include this subordinated debt as part of supplementary capital by BRAC Uganda Bank Limited which is still pending a response. This debt included in the supplementary capital would improve the total capital ratio to 15.45% as at February 2021.

- For the period ended 28 February 2021, the Bank had an unaudited profit of Ushs 4 billion.

Considering the measures adopted by the Company, the Directors believe that the Company will be able to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements are prepared on the basis of accounting policies applicable to a going concern.

**5. INTEREST INCOME ON LOANS AND ADVANCES**

Interest income calculated using the effective interest method.

|                                                 | 2020              | 2019              |
|-------------------------------------------------|-------------------|-------------------|
|                                                 | Ushs ‘000         | Ushs ‘000         |
| Group loans                                     | 36,470,691        | 71,987,590        |
| Small Enterprises program                       | 12,423,357        | 17,385,111        |
| Agriculture group loans                         | 69,758            | 83,875            |
| Agriculture line of credit                      | 4,317             | 2,782             |
| Empowerment and Livelihood of Adolescents (ELA) | 1,286,633         | 1,933,379         |
| Staff secured personal loan                     | 47,995            | 871               |
| Community Health Promoters (CHP)                | 32                | 299               |
| <b>Total</b>                                    | <b>50,302,783</b> | <b>91,393,907</b> |

**6. OTHER INTEREST INCOME**

Other interest income calculated using the effective interest method

|                                        | 2020             | 2019             |
|----------------------------------------|------------------|------------------|
|                                        | Ushs ‘000        | Ushs ‘000        |
| Interest income on current accounts    | 483,656          | 461,866          |
| Interest income on deposits with banks | 5,639,421        | 3,167,937        |
| <b>Total</b>                           | <b>6,123,077</b> | <b>3,629,803</b> |

The interest income from loans and advances and other interest income on deposits was earned using the effective interest method that relate to financial assets measured at amortised cost.

**7.a) INTEREST EXPENSE ON BORROWINGS**

|                                      | 2020      | 2019      |
|--------------------------------------|-----------|-----------|
| Lender                               | Ushs'000  | Ushs '000 |
| Bank of Africa                       | 1,362,200 | 1,543,863 |
| Responsibility Investment            | -         | 48,752    |
| Oiko Credit                          | 988,161   | 1,605,419 |
| Stromme Microfinance                 | 165,000   | 481,438   |
| FMO Entrepreneurial Development Bank | 3,581,070 | 3,473,889 |
| Triodos Investment Management (TIM)  | 3,684,782 | 3,541,870 |
| Global Partnership (GP)              | 1,787,805 | 1,770,602 |

|                                                     | 2020              | 2019              |
|-----------------------------------------------------|-------------------|-------------------|
| Lender                                              | Ushs'000          | Ushs '000         |
| aBi Trust                                           | 1,535,430         | 821,479           |
| BRAC Africa loan fund                               | 1,804,764         | -                 |
| BRAC International                                  | 229,879           | -                 |
| CitiBank Uganda                                     | 1,935,595         | -                 |
| Uganda Energy Credit Capitalisation Company (UECCC) | 4,384             | -                 |
| <b>Total</b>                                        | <b>17,079,070</b> | <b>13,287,312</b> |

#### 7.b) OTHER FINANCE COSTS

|                                       | 2020             | 2019             |
|---------------------------------------|------------------|------------------|
|                                       | Ushs'000         | Ushs '000        |
| Service Charge                        | 788,286          | 1,353,116        |
| Interest expense on voluntary savings | 3,650,091        | 142,567          |
| Interest on lease liability           | 1,786,353        | 1,702,165        |
| Withholding tax on interest           | 156,580          | 293,838          |
| <b>Total</b>                          | <b>6,381,310</b> | <b>3,491,686</b> |

The service charge relates to quarterly commitment fees for borrowings.

#### 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.

|                                               | 2020             | 2019             |
|-----------------------------------------------|------------------|------------------|
|                                               | Ushs'000         | Ushs '000        |
| Membership fee                                | 187,235          | 223,290          |
| Loan application fee                          | 99,352           | 224,879          |
| Other operating income                        | 1,688,760        | 153,476          |
| Income from subleasing right of use assets    | 210,226          | 28,951           |
| Ledger fees                                   | 2,235,949        | 498,321          |
| Other fees from banking operations            | 14,739           | 2,250            |
| Administrative fee from credit life insurance | 34,035           | 105,397          |
| Income from written off loans                 | 235,115          | 265,212          |
| Sale of passbooks                             | 24,821           | 72,366           |
| <b>Total</b>                                  | <b>4,730,232</b> | <b>1,574,142</b> |

All fees and commission income and expense arise from financial assets and financial liabilities that are not at fair value through profit and 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 pavement terms 2018                    | Revenue recognition under IFRS 15                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-------------------|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Category A</b> | These are transactional feesbased on revenue that mainly comprise of but not limited to leger fees.                       | <ul style="list-style-type: none"> <li>• Enforceable arrangement with customer exists.</li> <li>• Performance obligation (PO) - the Bank provides account transaction services</li> <li>• Transaction price - monthly fees in line with the contractual agreement.</li> <li>• Allocation of price to PO - single performance obligation, no allocation necessary.</li> <li>• PO satisfied - Revenue is currently recognised at the end of the month, for the services provided</li> <li>• during that month (operational efficiency).</li> </ul> |
| <b>Category B</b> | These are membership feescharged to customers.                                                                            | <ul style="list-style-type: none"> <li>• Enforceable arrangement with customer exists.</li> <li>• Performance obligation (PO)- the Bank admits theclient as a member eligible for a loan.</li> <li>• Transaction price - annual fees in line with thecontractual agreement.</li> <li>• Allocation of price to PO - single performanceobligation, no allocation necessary.</li> <li>• PO satisfied - At a point in time when the individualhas been admitted as a member.</li> </ul>                                                              |
| <b>Category C</b> | 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"> <li>• Enforceable arrangement with customer exists.</li> <li>• Performance obligation (PO) - the Bank sales pass books to customers and charges fees for account transactions.</li> <li>• 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.</li> <li>• PO satisfied - At a point in time when the transaction is processed.</li> </ul>                                    |

#### 9. NET FINANCE INCOME

|                                   | 2020           | 2019           |
|-----------------------------------|----------------|----------------|
|                                   | Ushs'000       | Ushs '000      |
| Unrealized foreign exchange gains | 165,729        | -              |
| Realized foreign exchange gains   | 288,948        | 358,765        |
| <b>Total</b>                      | <b>454,677</b> | <b>358,765</b> |

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 balance sheet date.

10. STAFF COSTS

|                                    | 2020              | 2019              |
|------------------------------------|-------------------|-------------------|
|                                    | Ushs'000          | Ushs '000         |
| Salaries                           | 27,810,499        | 25,201,519        |
| Wages                              | -                 | 2,314             |
| Bonus                              | -                 | 1,825,966         |
| NSSF -Employer                     | 2,789,290         | 2,710,428         |
| Insurance for staff                | 1,357,953         | 1,191,062         |
| Staff meals                        | 2,066,857         | 2,744,336         |
| Recruitment and relocation expense | 13,796            | -                 |
| Overtime                           | 9,913             | -                 |
| Group life insurance               | 46,482            | -                 |
| Payment in lieu of notice          | 46,260            | -                 |
| Provident fund                     | 87,632            | 93,775            |
| Staff training and development     | 571,363           | 1,017,671         |
| Staff loan benefit                 | 13,827            | 1,106             |
| Leave days accrual                 | 25,134            | 206,514           |
| Home leave expense                 | 102,167           | -                 |
| <b>Total</b>                       | <b>34,941,173</b> | <b>34,994,691</b> |

11. OTHER OPERATING EXPENSES

|                                              | 2020              | 2019              |
|----------------------------------------------|-------------------|-------------------|
|                                              | Ushs'000          | Ushs '000         |
| Occupancy expenses (11b)                     | 4,523,901         | 5,189,491         |
| Publication, advertising and marketing costs | 241,023           | 1,959,143         |
| Travel and transportation                    | 5,142,529         | 8,120,449         |
| Maintenance and general expenses             | 718,708           | 905,320           |
| Printing and office stationery               | 1,114,395         | 1,966,161         |
| Insurance for assets                         | 38,945            | 24,645            |
| Insurance for cash                           | 92,523            | 46,261            |
| Bad debt / interest write off                | 10,784            | 60,337            |
| Software development and maintenance         | 1,030,832         | 1,104,428         |
| Consultancy & legal services                 | 1,494,389         | 1,848,232         |
| Office equipment                             | 145,793           | 190,021           |
| Provision for audit fees                     | 248,713           | 246,998           |
| Other tax expenses/licenses                  | 21,923            | 43,092            |
| Penalties                                    | -                 | 81,704            |
| Provision for donations                      | -                 | 835,789           |
| Loan recovery costs                          | 35,534            | 46,182            |
| Governance/ board costs                      | 339,361           | 188,039           |
| Communication costs                          | 1,073,966         | 310,389           |
| <b>Total</b>                                 | <b>16,273,319</b> | <b>23,166,681</b> |

11 (b). Occupancy expenses are analyzed as follows

|                           | 2020             | 2019             |
|---------------------------|------------------|------------------|
|                           | Ushs'000         | Ushs '000        |
| Short term lease expenses | 243,727          | 417,502          |
| Utilities                 | 468,542          | 503,716          |
| Office cleaning           | 391,959          | 450,758          |
| Security                  | 3,419,673        | 3,817,515        |
| <b>Total</b>              | <b>4,523,901</b> | <b>5,189,491</b> |

12. TAXATION

12.1 Income tax expense

|                                                    | 2020                | 2019             |
|----------------------------------------------------|---------------------|------------------|
|                                                    | Ushs'000            | Ushs '000        |
| Current tax                                        | -                   | 3,323,456        |
| Under provision for corporation tax in prior years | 1,611,669           | 479,442          |
| Deferred tax (credit)/charge (note 12.2)           | (11,617,452)        | 2,824,714        |
| <b>Tax (credit)/expense</b>                        | <b>(10,005,783)</b> | <b>6,627,612</b> |

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

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

|                                                   | 2020                | 2019             |
|---------------------------------------------------|---------------------|------------------|
|                                                   | Ushs'000            | Ushs '000        |
| (Loss)/ profit before taxation                    | (38,252,149)        | 15,715,963       |
| <b>Tax calculated at 30% Tax effect of:</b>       | <b>(11,475,645)</b> | <b>4,714,789</b> |
| <b>Tax effect of:</b>                             |                     |                  |
| Under provision for corporation tax in prior year | 1,611,669           | 479,442          |
| Non-deductible expense and non-taxable income     | (141,807)           | 1,433,381        |
| Income tax (credit)/charge for the year           | (10,005,783)        | 6,627,612        |
| Effective corporation tax rate                    | 26%                 | 42%              |

12. 2. Deferred tax

Deferred tax is calculated on all temporary differences under the balance sheet liability method using the principal tax rate of 30%. Deferred tax assets and liabilities and the deferred tax charge/ (credit) as at 31 December 2020 are attributed to the following items: -

|                                             | 2020             | Movement            | 2019                |
|---------------------------------------------|------------------|---------------------|---------------------|
|                                             | Ushs'000         | Ushs '000           | Ushs '000           |
| Property and equipment                      | 7,620,005        | (403,572)           | 7,216,433           |
| Impairment and other provisions             | (2,022,236)      | 196,755             | (1,825,481)         |
| Unrealized foreign exchange gains/(losses)  | 354,636          | (165,510)           | 189,126             |
| Losses carried forward                      | -                | (38,352,515)        | (38,352,515)        |
|                                             | 5,952,405        | <b>(38,724,842)</b> | <b>(32,772,437)</b> |
| <b>Deferred tax liability/ (asset)@ 30%</b> | <b>1,785,721</b> | <b>(11,617,452)</b> | <b>(9,831,731)</b>  |

|                                              | 2018                 | IFRS 16        | P&L              | 2019             |
|----------------------------------------------|----------------------|----------------|------------------|------------------|
|                                              | Ushs'000             | Ushs '000      | Ushs'000         | Ushs '000        |
| Property and equipment                       | 3,705,453            | 540,096        | 3,374,456        | 7,620,005        |
| Impairment and other provisions              | (8,040,099)          | -              | 6,017,863        | (2,022,236)      |
| Unrealized foreign exchange gains/(losses)   | 331,239              | -              | 23,397           | 354,636          |
|                                              | <b>(4,003,407)</b>   | <b>540,096</b> | <b>9,415,716</b> | <b>5,952,405</b> |
| <b>Deferred tax asset @ 30%</b>              | <b>. (1,201,022)</b> | <b>162,029</b> | <b>2,824,714</b> | <b>1,785,721</b> |
| <b>Deferred tax (asset)/ liability @ 30%</b> | <b>(1,201,022)</b>   | <b>162,029</b> | <b>2,824,714</b> | <b>1,785,721</b> |

12.3 Tax payable/ (Recoverable)

|                                                       | 2020           | 2019           |
|-------------------------------------------------------|----------------|----------------|
|                                                       | Ushs'000       | Ushs '000      |
| At 1 January                                          | 740,866        | (948,826)      |
| Charge for the period                                 | -              | 3,323,456      |
| Under provision for corporation tax in previous years | 1,611,669      | 479,442        |
| Corporation tax paid during the year                  | (1,730,859)    | (2,113,206)    |
| WHT paid during the year                              | (111,957)      | -              |
| <b>At 31 December</b>                                 | <b>509,719</b> | <b>740,866</b> |

13. CASH AND BALANCES WITH THE CENTRAL BANK

|                                | 2020             | 2019             |
|--------------------------------|------------------|------------------|
|                                | Ushs'000         | Ushs '000        |
| Cash in hand                   | 1,956,130        | 880,383          |
| Balances with the central bank | 1,000,000        | 1,000,000        |
|                                | <b>2,956,130</b> | <b>1,880,383</b> |

The expected loss 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.

14. DEPOSITS AND BALANCES DUE FROM BANKS

14A. Deposits with other banks

|                                      | 2020              | 2019              |
|--------------------------------------|-------------------|-------------------|
|                                      | Ushs'000          | Ushs '000         |
| Standard Chartered Bank              | 258,843           | 180,919           |
| Bank of Africa                       | 3,864,530         | 9,061,638         |
| Centenary Bank                       | 488,811           | 520,922           |
| Equity Bank                          | 54,080            | 123,964           |
| DFCU Bank                            | 57,630            | 22,072            |
| Post Bank                            | 218,173           | 189,510           |
| Pride Microfinance Ltd               | 15,509            | 19,151            |
| Tropical Bank                        | 12,101            | 47,783            |
| Stanbic Bank                         | 9,229,281         | 2,909,163         |
| Citi Bank                            | 129,698           | -                 |
| <b>Deposits with other banks</b>     | <b>14,328,656</b> | <b>13,075,122</b> |
| <b>ECL allowance</b>                 | <b>(96,819)</b>   | <b>(145,472)</b>  |
| <b>Net deposits with other banks</b> | <b>14,231,837</b> | <b>12,929,650</b> |

14B. Placements with other banking Institutions

|                                                       | 2020              | 2019              |
|-------------------------------------------------------|-------------------|-------------------|
|                                                       | Ushs'000          | Ushs '000         |
| UGAFODE Microfinance                                  |                   | 3,577,603         |
| Mercantile Bank                                       | 13,360,844        | 605,425           |
| Pride Microfinance                                    | 3,060,082         | -                 |
| FINCA MDI                                             | 7,495,118         | 3,028,208         |
| DFCU                                                  | 2,820, 959        | -                 |
| Opportunity Bank                                      | 11,705,634        | 10,167,514        |
| <b>Total</b>                                          | <b>38,442,637</b> | <b>17,378,750</b> |
| <b>ECL allowance</b>                                  | <b>(259,757)</b>  | <b>(193,947)</b>  |
| <b>Net placements with other banking institutions</b> | <b>38,182,880</b> | <b>17,184,803</b> |

The maturity of the deposits and balances due from banks is analyzed as follows;

|                 | 2020              | 2019              |
|-----------------|-------------------|-------------------|
|                 | Ushs'000          | Ushs '000         |
| Within 3 months | 36,169,817        | 16,001,087        |
| After 3 months  | 16,244,900        | 14,113,366        |
| <b>Total</b>    | <b>52,414,717</b> | <b>30,114,453</b> |

The weighted average effective interest rates on deposits due from the banks were 12.25%. (2019:14.33%). The carrying book values of the deposits with the banks approximate the fair value.

14C. Movement in Expected Credit Losses

|                            | Bank Balances  | Placements     |
|----------------------------|----------------|----------------|
|                            | Ushs '000      | Ushs'000       |
| At 1 January 2020          | 145,472        | 193,947        |
| Charge for the year        | (48,653)       | 65,810         |
| <b>At 31 December 2020</b> | <b>96,819</b>  | <b>259,757</b> |
| At 1 January 2019          | -              | -              |
| Charge for the year        | 145,472        | 193,947        |
| <b>At 31 December 2019</b> | <b>145,472</b> | <b>193,947</b> |

LOANS AND ADVANCES TO CUSTOMERS

15.1 Loans and advances

|                                                       | 2020                | 2019               |
|-------------------------------------------------------|---------------------|--------------------|
|                                                       | Ushs'000            | Ushs'000           |
| Microfinance Group loans                              | 125,333,529         | 142,478,601        |
| Small Enterprises Program                             | 44,663,310          | 42,961,193         |
| Empowerment and Livelihood of Adolescents (ELA) loans | 2,308,014           | 6,337,588          |
| Community Health Promoters (CHP) loans                | -                   | 778                |
| Agriculture group loans                               | 199,618             | 230,487            |
| Agriculture line of credit                            | 17,393              | 12,568             |
| Staff personal secured loan                           | 1,044,637           | 187,423            |
| Loans modification                                    | 991,323             | -                  |
| <b>Gross Loans and Advances</b>                       | <b>174,557,824</b>  | <b>192,208,638</b> |
| <b>Expected credit losses</b>                         |                     |                    |
| Stage 1                                               | (60,104)            | (674,750)          |
| Stage 2                                               | (218,849)           | (42,932)           |
| Stage 3                                               | (21,378,681)        | (3,560,121)        |
|                                                       | <b>(21,657,634)</b> | <b>(4,277,803)</b> |
| <b>Net loans and advances to customers</b>            | <b>152,900,190</b>  | <b>187,930,835</b> |

The weighted average effective interest rate on loans and advances to customers is 27.95% (2019: 47%)  
Advances to customers are carried at amortized cost. It is estimated that the carrying values of advances to customers are approximately the fair value.

|                            | 2020        | 2019       |
|----------------------------|-------------|------------|
| Highest loan amount (Ushs) | 100,000,000 | 60,000,000 |
| Lowest loan amount (Ushs)  | 100,000     | 50,000     |
| Average loan term (weeks)  | 40          | 40         |
| Total number of borrowers  | 193,731     | 216,787    |

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

15.2 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:

|                       | 2020              | 2019             |
|-----------------------|-------------------|------------------|
|                       | Ushs'000          | Ushs '000        |
| At 1 January          | 4,277,803         | 7,230,674        |
| Charge for the year   | 19,431,419        | 1,431,332        |
| Loan write-off        | (2,051,588)       | (4,384,203)      |
| <b>At 31 December</b> | <b>21,657,634</b> | <b>4,277,803</b> |

Charge to profit or loss

|                                       |                   |                  |
|---------------------------------------|-------------------|------------------|
| Net increase in provisions            | 19,431,419        | 1,431,332        |
| Modification gain on financial assets | (991,323)         | -                |
| <b>Net charge to profit or loss</b>   | <b>18,440,096</b> | <b>1,431,332</b> |

The gain on modification of financial assets arose due to restructures given to the Bank's customers due to 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.

15.3 Sectoral analysis of loans and advances to customers

|                          | 2020               | 2019               |
|--------------------------|--------------------|--------------------|
|                          | Ushs'000           | Ushs '000          |
| Agriculture              | 29,260,934         | 32,084,530         |
| Non-agriculture business | 145,296,890        | 160,124,108        |
|                          | <b>174,557,824</b> | <b>192,208,638</b> |

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 x LGD x 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.

**Expo sure at Default (EAD);** This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

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

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 - PROFIT/LOSS CHARGE

|                                 | 2020              | 2019             |
|---------------------------------|-------------------|------------------|
|                                 | Ushs '000         | Ushs'000         |
| Loans and advances (note 15.2)  | 18,440,096        | 1,431,332        |
| Deposits with banks (note 14 C) | 65,810            | (102,821)        |
| Bank balances (note 14 C)       | (48,653)          | (21,785)         |
| <b>Total</b>                    | <b>18,457,253</b> | <b>1,306,726</b> |

17. RELATED PARTY DISCLOSURE

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

17.1 RELATED PARTY RECEIVABLES

|                                | 2020             | 2019             |
|--------------------------------|------------------|------------------|
|                                | Ushs'000         | Ushs'000         |
| BRAC International Holdings BV | 649,472          | 2,358,443        |
| BRAC Uganda                    | 1,221 637        | -                |
|                                | <b>1,871,109</b> | <b>2,358,443</b> |

17.2 RELATED PARTY PAYABLES

|                                                  | 2020         | 2019              |
|--------------------------------------------------|--------------|-------------------|
|                                                  | Ushs'000     | Ushs'000          |
| BRAC Bangladesh                                  | 4,071        | 4,590             |
| BRAC Uganda                                      | -            | 771,543           |
| BRAC International Holdings BV- dividend payable | -            | 24,209,311        |
|                                                  | <b>4,071</b> | <b>24,985,444</b> |

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.

17.3 OTHER RELATED PARTY TRANSACTIONS DURING THE YEAR:

i) Loans and advances to related party

|                              | 2020             | 2019           |
|------------------------------|------------------|----------------|
|                              | Ushs'000         | Ushs'000       |
| To employees                 | 1,126,054        | 213,800        |
| <b>Total</b>                 | <b>1,126,054</b> | <b>213,800</b> |
| Interest earned on the loans | 45,468           | 846            |

Loans and advances to customers as at 31 December 2020 also include loans to employees of Ushs 1,126 million (2019: Ushs 213 million). The collective impairment relating to employee loans was Ushs 1.9 million (2019: Ushs. 1.7 million). The fair value of loans and advances approximates their carrying amount.

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 employee services is shown below:

|                                            | 2020      | 2019      |
|--------------------------------------------|-----------|-----------|
|                                            | Ushs'000  | Ushs'000  |
| Salaries and other short-term compensation | 2,140,294 | 2,343,781 |

iii) Directors’ remuneration

|                                | 2020     | 2019     |
|--------------------------------|----------|----------|
|                                | Ushs'000 | Ushs'000 |
| Fees for services of directors | 242,256  | 140,010  |

At 31 December 2020, there were no loans to directors and companies controlled by directors or closely connected persons (2019: Ushs Nil).

18. OTHER ASSETS

|                                                                 | 2020             | 2019             |
|-----------------------------------------------------------------|------------------|------------------|
|                                                                 | Ushs'000         | Ushs'000         |
| Advance to suppliers/ Other assets                              | 1,265,219        | 187,738          |
| Prepaid rent                                                    | "12,000          | 282 , 778        |
| Prepaid insurance                                               | 1,234,691        | 864,413          |
| WHT receivable                                                  | 215,080          | 257,863          |
| Security deposits                                               | 1,800            | 1,800            |
| Receivable from MTN                                             | 1,162            | 1,162            |
| Employee receivables                                            | 51,185           | 26,525           |
| Swifin account- receivables from E cash                         |                  | 3,018            |
| Cash shortages recoverable                                      | 6,941            | 16,292           |
| Deferred staff expense (Arising from fair value of staff loans) | 68,201           | 22,728           |
| Loan arrangement fees                                           | 375,361          | 299,470          |
| <b>Total</b>                                                    | <b>3,231,640</b> | <b>1,963,787</b> |

19. PROPERTY AND EQUIPMENT

|                                            | Furniture         | Equipment         | Motor vehicles | Total             |
|--------------------------------------------|-------------------|-------------------|----------------|-------------------|
|                                            | Ushs ‘000         | Ushs ‘000         | Ushs ‘000      | Ushs’000          |
| <b>Cost</b>                                |                   |                   |                |                   |
| <b>At 1 January 2019</b>                   | <b>8,621,614</b>  | <b>5,601,915</b>  | <b>461,918</b> | <b>14,685,447</b> |
| Additions                                  | 1,519,713         | 4,671,535         | 147,764        | 6,339,012         |
| Capitalization of Capital Work In Progress | 99,931            | 2,305,885         | -              | 2,405,816         |
| <b>At 31 December 2019</b>                 | <b>10,241,258</b> | <b>12,579,335</b> | <b>609,682</b> | <b>23,430,275</b> |
| Additions                                  | 83,624            | 1,048,682         | -              | 1,132,306         |
| Capitalization of Capital Work In Progress | 227,634           | -                 | -              | 227,634           |
| Disposal                                   | (8,924)           | (53,852)          | (8,364)        | (71,140)          |
| <b>At 31 December 2020</b>                 | <b>10,543,592</b> | <b>13,574,165</b> | <b>601,318</b> | <b>24,719,075</b> |
| <b>Depreciation</b>                        |                   |                   |                |                   |
| <b>At 1 January 2019</b>                   | <b>1,194,383</b>  | <b>955,060</b>    | <b>198,307</b> | <b>2,347,750</b>  |
| Charge for the year                        | 1,216,522         | 2,091,202         | 100,583        | 3,408,307         |
| <b>At 31 December 2019</b>                 | <b>2,410,905</b>  | <b>3,046,262</b>  | <b>298,890</b> | <b>5,756,057</b>  |
| Charge for the year                        | 1,233,705         | 2,495,751         | 109,974        | 3,839,430         |
| Accumulated depreciation on disposal       | (8,223)           | (47,307)          | (8,364)        | (63,894)          |
| <b>At 31 December 2020</b>                 | <b>3,636,387</b>  | <b>5,494,706</b>  | <b>400,500</b> | <b>9,531,593</b>  |
| <b>Carrying amount</b>                     |                   |                   |                |                   |
| <b>At 31 December 2020</b>                 | <b>6,907,205</b>  | <b>8,079,459</b>  | <b>200,818</b> | <b>15,187,482</b> |
| <b>At 31 December 2019</b>                 | <b>7,830,353</b>  | <b>9,533,073</b>  | <b>310,792</b> | <b>17,674,218</b> |

20. CAPITAL WORK IN PROGRESS

|                            | Computer Soft<br>ware | Computer<br>Hardware | Branch<br>Refurbishment | Total            |
|----------------------------|-----------------------|----------------------|-------------------------|------------------|
|                            | Ushs ‘000             | Ushs ‘000            | Ushs ‘000               | Ushs ‘000        |
| <b>Cost</b>                |                       |                      |                         |                  |
| <b>At 1 January 2019</b>   | <b>5,556,826</b>      | <b>2,305,855</b>     | <b>185,474</b>          | <b>8,048,155</b> |
| Additions                  | -                     | -                    | 110,335                 | 110,335          |
| Capitalized                | (5,556,826)           | (2,305,855)          | (185,474)               | (8,048,155)      |
| <b>At 31 December 2019</b> | <b>-</b>              | <b>-</b>             | <b>110,335</b>          | <b>110,335</b>   |
| Additions                  | 3,707,432             | -                    | 117,299                 | 3,824,731        |
| Capitalized                | (217,721)             | -                    | (227,634)               | (445,355)        |
| <b>At 31 December 2020</b> | <b>3,489,711</b>      | <b>-</b>             | <b>-</b>                | <b>3,489,711</b> |

The items included in the capital works in progress are advance payments on internal audit banking platform and integration costs.

21. INTANGIBLE ASSETS

|                                            |                  |
|--------------------------------------------|------------------|
| <b>At 31 January 2019</b>                  |                  |
| <b>Cost</b>                                |                  |
| Additions                                  | 503,250          |
| Capitalization of capital work in progress | 5,556,826        |
| <b>At 31 December 2019</b>                 | <b>6,060,076</b> |
| <b>Depreciation</b>                        |                  |
| <b>At 31 January 2019</b>                  |                  |
| Charge for the year                        | 577,782          |
| <b>At 31 December 2019</b>                 | <b>577,782</b>   |
|                                            |                  |
| <b>At 1 January 2020</b>                   |                  |
| <b>Cost</b>                                | <b>6,060,076</b> |
| Additions                                  | 76,424           |
| Capitalization of capital work in progress | 217,721          |
| <b>At 31 December 2020</b>                 | <b>6,354,221</b> |
| <b>Depreciation</b>                        |                  |
| <b>At 1 January 2020</b>                   | <b>577,782</b>   |
| Charge for the year                        | 661,872          |
| <b>At 31 December 2020</b>                 | <b>1,239,654</b> |
| <b>Carrying amount</b>                     |                  |
| <b>At 31 December 2020</b>                 | <b>5,114,567</b> |
| <b>At 31 December 2019</b>                 | <b>5,482,294</b> |

The intangibles relates to the core banking system and HRM system

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.

(i) Right-of-use assets

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

|                            |                   |
|----------------------------|-------------------|
| <b>Cost</b>                | <b>Ushs ‘000</b>  |
| <b>At 1 January 2019</b>   | <b>15,252,290</b> |
| Additions                  | -                 |
| Disposal                   | -                 |
| <b>At 31 December 2019</b> | <b>15,252,290</b> |
| <b>Depreciation</b>        |                   |
| <b>At 1 January 2019</b>   | <b>1,667,745</b>  |
| Charge for the year        | 1,828,850         |
| <b>At 31 December 2019</b> | <b>3,496,595</b>  |
| <b>Cost</b>                |                   |
| <b>At 1 January 2020</b>   | <b>15,252,290</b> |
| Additions                  | 2,791,048         |
| Disposal                   | (55,391)          |
| <b>At 31 December 2020</b> | <b>17,987,947</b> |

| Cost                                 | Ushs ‘000         |
|--------------------------------------|-------------------|
| <b>At 1 January 2020</b>             | <b>3,496,595</b>  |
| Charge for the year                  | 2,555,254         |
| Accumulated depreciation on disposal | (34,109)          |
| <b>At 31 December 2020</b>           | <b>6,017,740</b>  |
| <b>Carrying amount</b>               |                   |
| <b>At 31 December 2020</b>           | <b>11,970,207</b> |
| <b>At 31 December 2019</b>           | <b>11,755,695</b> |

As at 31 December 2020, the future minimum lease payments under non-cancellable operating leases were as follows.

#### Maturity analysis - Contractual undiscounted cash flows

|                                                            | 2020              | 2019              |
|------------------------------------------------------------|-------------------|-------------------|
|                                                            | Ushs’000          | Ushs’000          |
| Less than one year                                         | 3,296,363         | 3,337,078         |
| Between one and five year                                  | 13,825,274        | 13,212,034        |
| More than five years                                       | 1,758,000         | 4,400,407         |
| <b>Total undiscounted lease liabilities at 31 December</b> | <b>18,879,637</b> | <b>20,949,519</b> |

#### i) Amounts recognized in profit or loss

| Leases under IFRS 16                        | Ushs’000           | Ushs’000           |
|---------------------------------------------|--------------------|--------------------|
| Interest on lease liability                 | (1,786,353)        | (1,702,164)        |
| Income from sub leasing right of use assets | 210,226            | 28,951             |
| Expenses relating to short term leases      | 243,727            | 417,502            |
|                                             | <b>(1,332,400)</b> | <b>(1,255,711)</b> |

#### ii) Amounts recognized in the statement of cash flows

|                                      | Ushs’000         | Ushs’000         |
|--------------------------------------|------------------|------------------|
| Interest expense payment             | 1,793,781        | 2,377,700        |
| Principle payment                    | 1,786,353        | 1,702,165        |
| <b>Total cash outflow for leases</b> | <b>3,580,134</b> | <b>4,079,864</b> |

#### iii) Lease liability

| Cost                       | Ushs’000          | Ushs’000          |
|----------------------------|-------------------|-------------------|
| As at 1 January            | 11,911,481        | 13,322,440        |
| New leases                 | 2,791,049         | -                 |
| Interest expense           | 1,786,353         | 1,702,164         |
| Lease payments             | (3,580,134)       | (3,113,123)       |
| <b>At 31 December 2020</b> | <b>12,908,749</b> | <b>11,911,481</b> |

#### 23. LOAN SECURITY FUND

|                                   | 2020              | 2019              |
|-----------------------------------|-------------------|-------------------|
|                                   | Ushs’000          | Ushs’000          |
| Opening balance                   | 34,460,912        | 32,003,770        |
| Received during the year          | 11,041,351        | 3,938,834         |
| Paid off/adjusted during the year | (12,342,551)      | (1,481,692)       |
| <b>Total</b>                      | <b>33,159,712</b> | <b>34,460,912</b> |

The Loan Security Fund acts as collateral for the customers' loan obligations (Bank loans) to BRAG Uganda Bank Limited. 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 client. The fair value of loan security fund approximates the carrying amount.

#### 24. DEPOSITS FROM CUSTOMERS

|                    | 2020              | 2019              |
|--------------------|-------------------|-------------------|
|                    | Ushs’000          | Ushs’000          |
| Savings Accounts   | 11,917,318        | 11,548,374        |
| Corporate Accounts | 6,509,338         | 57,767            |
| Fixed deposits     | 32,804,980        | 6,944,621         |
| <b>Total</b>       | <b>51,231,636</b> | <b>18,550,762</b> |

The weighted average effective interest rate is on deposits from customers is 5.42% (2019:6%)

#### 25. BORROWINGS AND MANAGED FUNDS

|                                            | 2020               | 2019              |
|--------------------------------------------|--------------------|-------------------|
|                                            | Ushs’000           | Ushs’000          |
| <b>Borrowed funds</b>                      |                    |                   |
| Bank of Africa (ii)                        | 6,998,270          | 11,855,598        |
| Stromme Microfinance (iii)                 | -                  | 1,847,197         |
| Oiko Credit (v)                            | 4,496,138          | 8,920,000         |
| FMO Entrepreneurial Development Bank (vii) | 22,387,336         | 22,383,967        |
| Triodes Investment Management (viii)       | 22,401,585         | 22,390,573        |
| Global Partners (ix)                       | 11,179,851         | 11,173,466        |
| aBi Trust and Finance (vi)                 | 12,587,745         | 12,817,952        |
| BRAC International (iv)                    | 6,427,572          | -                 |
| UECCC (x)                                  | 4,004,383          | -                 |
| Citi Bank (iii)                            | 14,763,437         |                   |
| Other financial costs payable (ix)         | -                  | 219,645           |
| <b>Managed Funds</b>                       | -                  | -                 |
| Kiva (i)                                   | 998,761            | 1,143,570         |
| MasterCard foundation (xi)                 | 5,344,943          | -                 |
| <b>Total</b>                               | <b>111,590,021</b> | <b>92,751,968</b> |

**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. BRAC received additional funds of USO 327,060 within the year 2018.

In 2019 BRAC Uganda Bank received USO 152,975 and paid to Kiva USO 282,694. In 2020 BRAC Uganda Bank received USO 51,113 and paid to Kiva USO 149,462 within the period. The facility has outstanding balance of USO of 273,976 equivalent to Ushs 999 million. The loan has no security.

**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 USO 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 is Ushs 6.99 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 USO 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 2020 was 13.03%. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio and the outstanding balance is Ushs 14.8 billion.

**iv) BRAC International BV**

In April 2020, the dividend that was outstanding to BRAC International BV of USO 3.4 million was converted into a loan for a period of one year at an interest rate of 5% per annum. Interest and principal is paid on a semiannual basis. The facility has an outstanding balance of USO of 1.7 million equivalent to Ushs 6.4 billion that is not secured.

**v) Oiko Credit**

In October 2016, BRAC Uganda Bank obtained a loan from Oiko credit, the loan agreement was for a total principal loan amount of Ushs 20 billion for a period of 5 years, at a rate of 16.01% and disbursed in 4 tranches of Ushs 5 billion each. The first tranche was received on the 23 December 2016 and the second and third tranches of Ushs10 billion were received on 21 September 2017. The last tranche was received in November 2018 of Ushs 5 billion. The loan is repayable in 18 quarterly instalments. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. The interest rate was revised to 14% from 16.1% because this facility is tagged to 182Tb+2% which reduced in the year 2018 this rate has not been revised to date. The outstanding balance of Ushs 4.4 billion will be maturing in December 2021.

**vi) aBi 2020 Limited**

In July 2017, a loan agreement was signed between BRAC Uganda Bank Limited and aBi 2020 limited amounting to Ushs 6 billion. The principle is repayable within 4 years and attracts an interest rate of minimum 14% pa with six months grace period for principal. The amount was disbursed on the 30 July 2017. 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 2 billion.

In October 2019, a new loan agreement was signed between BRAC Uganda Bank Limited and aBi Finance limited amounting to Ushs 10 billion. The principle is repayable within 4 years and attracts an interest rate of minimum 12.8% pa with six months grace period for principal. 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 9.5 billion.

**vii) 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 USO 6 million for a period of 4 years and disbursed in 4 tranches. The first tranche of USO 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 USO 1,000,000 at an interest rate of 15.10%. The final disbursements of Ushs 6.6 billion and 6.2 billion equivalent to USO 3,359,020 was drawn down in 2018 at an interest rate of 13.9% and 17% respectively. The loan principal repayments was 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 is USO 6 million. The loan is not secured.

**viii) 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 USO 6 million for a period of 4 years disbursed in 4 tranches. The first tranche of USO 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 USO 1,000,000 at an interest rate of 15.57%. The final disbursements of Ushs 6.6 billion and Ushs 6.2 billion equivalent USO 3,359,020 were drawn down in 2018 at an interest rate of 14.9% and 18% respectively. The loan principal repayments was 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 is USO 6 million. The loan is not secured.

**ix) 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 USO 2 million for a period of 4 years and disbursed in 4 tranches. The first tranche of USO 800,000 was disbursed in July 2017 at an interest rate of 16.63% and the second tranche was disbursed in December 2017 of USO 500,000 at an interest rate of 1;i.10%. The final disbursements of Ushs 3.3 billion and 3.1 billion equivalent USO 1,679,510 was drawn down in 2018 at an interest rate of 13.9% and 17% respectively. The loan principal repayments was 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 is USO 3 million. The loan is not secured.

**x) 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 is secured by a floating charge on BRAC Uganda Bank's loan portfolio.

**xi) MasterCard Foundation**

In July 2020, BRAC Uganda Bank Limited obtained managed funds from MasterCard foundation amounting to USO 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.

**Value of security held**

Bank of Africa, Citi Bank, UECCC, aBi 2020 Limited and the Oiko Credit loans are secured against the loan portfolio, all the other loans and advances are unsecured.

25.1 Analysis of movement in Borrowings and managed funds

|                          | 2020         | 2019         |
|--------------------------|--------------|--------------|
|                          | Ushs'000     | Ushs'000     |
| At 1 January             | 92,751,968   | 80,292,700   |
| Receipts during the year | 48,925,480   | 25,560,687   |
| Interest expense         | 17,045,301   | 13,476,898   |
| Payment of interest      | (16,167,742) | (13,476,898) |
| Payments during the year | (30,964,986) | (13,101,419) |
| At 31 December           | 111,590,021  | 92,751,968   |

26. OTHER LIABILITIES

|                                       | 2020      | 2019      |
|---------------------------------------|-----------|-----------|
|                                       | Ushs'000  | Ushs'000  |
| Accruals for expenses                 | 2,791,552 | 1,875,800 |
| CRB fees payable                      | 1,264,596 | 23,084    |
| Staff leave provision                 | 67,364    | 484,907   |
| Provision for audit fees              | 118,062   | 126,139   |
| NSSF withholdings                     | 337,671   | 621,587   |
| Salary provision                      | 26,776    | 7,042     |
| Stamp duty provisions                 | 47        | 18,220    |
| Excise duty                           | 62,974    | 21,167    |
| Tax withholdings                      | 35,661    | 1,126,401 |
| Tax penalty payable                   | -         | 81,704    |
| VAT payable                           | -         | 866,703   |
| Credit life insurance premium payable | 209,869   | 180,368   |
| PAYE payable                          | 482,376   | 1,065,472 |
| Unclaimed bank credits                | 46,536    | 45,153    |
| Provident fund payable                | -         | 6,781     |
| Credit life insurance claim payable   | 139,255   | 121,809   |
| other liabilities                     | 70,178    | 2,058     |
| Total                                 | 5,652,917 | 6,674,395 |

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

27. DONOR FUNDS

|                                        |      | 2020      | 2019      |
|----------------------------------------|------|-----------|-----------|
|                                        | Note | Ushs '000 | Ushs '000 |
| Donor funds received in advance        | 27.1 | 5,106,517 | 337,876   |
| Donor funds investment in fixed assets | 27.3 | 48,162    | 68,672    |
| Total                                  |      | 5,154,679 | 406,548   |

Donor funds relate to grants received from various donors to support the Bank's operations.

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.

27.1 Donor funds received in advance

|                                                  |      | 2020      | 2019      |
|--------------------------------------------------|------|-----------|-----------|
|                                                  | Note | Ushs'000  | Ushs'000  |
| Opening balance                                  |      | 337, 876  | 153,412   |
| Donations received during the year               | 27.2 | 5,553,330 | 567,877   |
| Transferred to statement of comprehensive income | 27.4 | (305,254) | (383,413) |
| Transferred to BRAC NGO                          | 27.4 | (479,435) | -         |
| Closing balance                                  |      | 5,106,517 | 337,876   |

27.2 Donations received during the year

|                            | 2020        | 2019     |
|----------------------------|-------------|----------|
| Name of Donor              | Ushs'000    | Ushs'000 |
| Grameen Foundation         | 1, 540, 094 | -        |
| BRAC International         | 75,427      | -        |
| ACCION                     | 24,966      | -        |
| Mastercard Foundation      | 2,743,463   | -        |
| World savings Organisation | 1,099,337   | -        |
| Tripple Jump               | 70,043      | -        |
| Government of Luxemburg    | -           | 167,349  |
| RUE                        | -           | 10,222   |
| BRAC NGO                   | -           | 372,821  |
| World Bank                 | -           | 17,485   |
|                            | 5,553,330   | 567,877  |

27.3 Donor funds investment in fixed assets

|                                                  | 2020     | 2019      |
|--------------------------------------------------|----------|-----------|
|                                                  | Ushs'000 | Ushs'000  |
| Opening balance                                  | 68,672   | 507, 010  |
| Transferred to statement of comprehensive income | (20,510) | (438,338) |
| Closing balance                                  | 48,162   | 68,672    |

27.4 Transfers to statement of comprehensive income

|                                                                   | 2020           | 2019           |
|-------------------------------------------------------------------|----------------|----------------|
|                                                                   | Ushs'000       | Ushs'000       |
| Transferred to statement of comprehensive income from donor funds | 305,254        | 383,413        |
| Transferred to BRAC Uganda NGO                                    | 479,435        | -              |
| <b>Total</b>                                                      | <b>784,689</b> | <b>383,413</b> |

28. SHARE CAPITAL

The total number of authorized, issued and paid ordinary shares as at 1 January 2020 and 31 December 2020 was 4,300,000 shares at Ushs 10,000 each. The amount recognized as share capital was transferred from the retained earnings of BRAG Ugan-da Microfinance Limited (a company limited by guarantee) as at 31 December 2017 as part of the reorganization by the parent company BRAC International Holdings BV. The shares were issued on the 01 January 2019. Each share is entitled to one vote. As at 31 December 2020, the shareholding structure of the Bank was as below;

|                                                      | 2020              | 2019              |
|------------------------------------------------------|-------------------|-------------------|
|                                                      | Ushs'000          | Ushs'000          |
| BRAC International Holdings BV                       | 21, 070,000       | 21,070,000        |
| Deutsche Investitions und Entwicklungsgellschaft mbH | 7,310,000         | 7,310,000         |
| ASN Microkerdietpool                                 | 7,310,000         | 7,310,000         |
| ShoreGap 111,LP                                      | 7,310,000         | 7,310,000         |
| <b>Total</b>                                         | <b>43,000,000</b> | <b>43,000,000</b> |

There is no single controlling party

29. RETAINED EARNINGS

This comprise prior year profits, less appropriation to credit risk reserve, any dividend and current year loss

DIVIDEND

No dividend was proposed by the directors during the period (2019: 4,544,175)

30. CASH FLOWS FROM OPERATING ACTIVITIES

|                                                    | 2020                | 2019              |
|----------------------------------------------------|---------------------|-------------------|
|                                                    | Ushs'000            | Ushs'000          |
| <b>Cash flow from operating activities</b>         |                     |                   |
| <b>Adjustments for:</b>                            |                     |                   |
| <b>(Loss)/Profit before tax</b>                    | <b>(38,252,149)</b> | <b>15,715,963</b> |
| Depreciation and amortization                      | 7,056,553           | 5,814,939         |
| Release of deferred income on donor assets         | (325,763)           | (253,874)         |
| Loss on disposal of PPE and ROU                    | 28,528              | -                 |
| Impairment provision expense                       | 18,440,096          | 698,843           |
| Impairment of securities                           | -                   | (124,607)         |
| Interest expense- leases                           | 1,786,353           | 1,702,165         |
| Interest expense- borrowings                       | 17,045,301          | 13,476,898        |
| <b>Cash flow before changes in working capital</b> | <b>5,778,919</b>    | <b>37,030,327</b> |

|                                                   | 2020              | 2019               |
|---------------------------------------------------|-------------------|--------------------|
|                                                   | Ushs'000          | Ushs'000           |
| <b>Cash flow from operating activities</b>        |                   |                    |
| <b>Changes in working capital</b>                 |                   |                    |
| Decrease/ (increase) in loans and advances        | 16,590,549        | (11,730,606)       |
| (Increase)/ decrease in other assets              | (1,267,852)       | 842,902            |
| Decrease/ (increase) in related party receivables | 487,334           | (2,358,442)        |
| (Increase)/ decrease in short term deposits       | (424,525)         | 9,238,042          |
| (Decrease) in related party payables              | (24,981,373)      | (43,135,771)       |
| (Decrease)/ increase in other liabilities         | (1,021,478)       | 3,154,507          |
| Increase in voluntary deposits                    | 32,680,874        | 18,550,762         |
| (Decrease)/ increase in loan security fund        | (1,301,200)       | 2,457,142          |
| <b>Cash inflow from operations</b>                | <b>26,541,248</b> | <b>14,048,863</b>  |
| Income taxes paid                                 | (1,842,816)       | (2,113,206)        |
| Interest paid on borrowings                       | (16,167,742)      | (13,476,898)       |
| Interest paid- leases                             | (1,786,353)       | (1,702,164)        |
| <b>Net cash inflow from operating activities</b>  | <b>6,744,337</b>  | <b>(3,243,405)</b> |

31. 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.

|                                                                     | 2020              | 2019              |
|---------------------------------------------------------------------|-------------------|-------------------|
|                                                                     | Ushs'000          | Ushs'000          |
| Cash on hand and balances with the Central Bank                     | 2,956,130         | 1,880,383         |
| Deposits with other financial institutions                          | 14,231,837        | 12,929,650        |
| Investments with other financial institutions with a 3 months tenor | 23,644,986        | 3,071,437         |
| <b>Total</b>                                                        | <b>40,832,953</b> | <b>17,881,470</b> |

32. FINANCIAL RISK MANAGEMENT

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 (BUSL) 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 K- 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 / Chief Operations Officer (COO), 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 at BUSL 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 BUSL 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

| #  | Components                     | Accountability Bank wide                                                                                                             | Accountability Branch level                                                                     | Accountability Sate llite level                                                                    |
|----|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| 1. | Establish Objectives / Context | Board assisted by 5 Board Committees<br>Tools: Vision, Mission, Values & Regulations                                                 | BM1 Tools: Policy Manuals, Risk Appetite limits                                                 | S.M<br>Tools: Policy Manuals, Risk Appetite limits                                                 |
| 2  | Identify Risks & Controls      | HODs assisted by Head of Risk<br>Tools: RCSA [Process Flows, Risk sheets, Questionnaires], On-site & Off-site risk assessments, SWOT | BM assisted by BOM<br>Tools: RCSA [Process Flows, Risk sheets], Checklists, Visits and Meetings | SM assisted by S.Teller<br>Toosls RCSA [P rocess Flows, Risk sheets], Checklists, Visits, Meetings |
| 3  | Assess Risks & Controls        | MRC assisted by Head of Risk & 5 Mgt committees<br>Tools: SxS Risk Matrix                                                            | BM<br>Tools: SxS risk matrix                                                                    | BM assisted by CS, CA and SM<br>Tools: SxS Risk Matrix                                             |
| 4  | Evaluate & Take action         | MRC / Head of Risk HoA; reports to Board<br>Tools: SxS Risk Matrix, Value at Risk (VAR), 4Ts                                         | BM assisted by BOM<br>Tools: SxS Risk Matrix, Risk Appetite limits                              | BM assisted by CS, CA and SM<br>Tools: SxS Risk Matrix, Risk Appetite limits                       |
| 5  | Monitor & Report               | MRC / HoA; report to Board<br>Risk / Compliance /HODs; report to MRC<br>Tools: Risk register, Incident reports<br>Systems            | BM assisted by BOM<br>Tools: Risk register, Incident reports, Systems                           | BM assisted by CS, CA and SM<br>Tools: Risk register, Incident reports, Systems                    |

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.

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 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 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 t reputational r1sk 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 make adjustments to it in light of changes in the economic conditions.

Management have 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:

|                                 | 2020               | 2019               |
|---------------------------------|--------------------|--------------------|
|                                 | Ushs'000           | Ushs'000           |
| Other liabilities               | 5,652,917          | 6,674,395          |
| Due to related parties          | 4,071              | 24,985,444         |
| Borrowings                      | 111,590,021        | 92,751,968         |
| Less: Cash and cash equivalents | {40,832,953}       | (17,881,470)       |
| <b>Net debt</b>                 | <b>76,414,056</b>  | <b>106,530,337</b> |
| Equity                          | 38,755,980         | 67,002,346         |
| <b>Capital and net debt</b>     | <b>115,170,036</b> | <b>173,532,683</b> |
| <b>Net debt to equity ratio</b> | <b>51%</b>         | <b>61%</b>         |

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

- i) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide
- ii) returns for shareholders and benefits for other stakeholders; and
- iii) 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);
- Maintain a ratio of total regulatory capital to the risk weighted assets of not less than 12% and;
- Maintain core capital of not less than 10% of risk weighted assets
- Effective 31 December 2020 the minimum capital requirement has been raised from 10% and 12% to 12.5% and 14.5% for core and total capital respectively

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 company'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.

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

|                                               | 2020              | 2019              |
|-----------------------------------------------|-------------------|-------------------|
| <b>CORE CAPITAL (Tier 1)</b>                  | <b>Ushs '000</b>  | <b>Ushs '000</b>  |
| Paid up share capital                         | 43,000,000        | 43,000,000        |
| Retained earnings                             | (4,244,019)       | 19,458,171        |
| <b>Less: deductions determined by the FIA</b> |                   |                   |
| Goodwill and other intangible assets*         | (8,604,278)       | (5,482,294)       |
| Deferred income tax asset                     | (9,831,731)       | -                 |
| Unrealized foreign exchange gains             | (215,112)         | -                 |
| <b>Total Core Capital</b>                     | <b>20,104,860</b> | <b>56,975,877</b> |
| <b>SUPPLIMENTARY CAPITAL (Tier 2)</b>         |                   |                   |
| Unencumbered general provisions for losses    | 1,446,966         | 1,837,202         |
| <b>Total Supplementary Capital</b>            | <b>1,446,966</b>  | <b>1,837,202</b>  |
| <b>TOTAL CAPITAL (Tier 1+Tier 2)</b>          | <b>21,551,826</b> | <b>58,813,079</b> |

\*Goodwill and other intangible assets is made up of Intangible assets and work in progress as per the statement of financial position

The table below summarizes the risk weighted assets of the Bank

|                                                       | Financial Position Nominal amount |                    | Risk Weighting | Risk weighted assets |                    |
|-------------------------------------------------------|-----------------------------------|--------------------|----------------|----------------------|--------------------|
|                                                       | 2020                              | 2019               |                | 2020                 | 2019               |
|                                                       | Ushs '000                         | Ushs '000          |                | Ushs '000            | Ushs '000          |
| Notes and coins                                       | 1,956,130                         | 880,383            | 0%             | -                    | -                  |
| Balances with Bank of Uganda                          | 1,000,000                         | 1,000,000          | 0%             |                      |                    |
| Balances with banks in Uganda before ECL              | 28,621,566                        | 27,217,003         | 20%            | 5,724,313            | 5,443,401          |
| Balances with other institutions in Uganda before ECL | 24,149,726                        | 3,236,870          | 20%            | 4,829,945            | 647,374            |
| Loans net of provisions                               | 155,420,036                       | 190,674,312        | 100%           | 155,420,036          | 190,764,312        |
| Premises and other fixed assets                       | 27,157,6.89                       | 29,429,912         | 100%           | 27,157,689           | 29,429,912         |
| Other assets**                                        | 5,102,749                         | 4,432,566          | 100%           | 5,102,749            | 4,432,566          |
| <b>Total Risk weighted assets</b>                     | <b>243,407,896</b>                | <b>256,871,046</b> |                | <b>198,234,732</b>   | <b>230,627,565</b> |

| Capital                                     | FIA Regulatory ratios |            | RATIO |       |
|---------------------------------------------|-----------------------|------------|-------|-------|
|                                             | 2020                  | 2019       | 2020  | 2019  |
|                                             | Ushs '000             | Ushs '000  | (%)   | (%)   |
| Tier 1 Capital (Min ratio -10%)             | 20,104,860            | 56,975,877 | 10%   | 10.14 |
| Tier 1 and Tier 2 Capital (Min ratio - 12%) | 21,551,826            | 58,813,079 | 12%   | 10.87 |

Contrary to Regulation 7(1) of the Financial Institutions (Capital Adequacy Requirements) Regulation 2018, the Bank's Total Capital ratio fell below the minimum requirements of 12% by 1.13%. Refer to note 4 for details of the breach.

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:

|                                            | 2020                      | 2019                      |
|--------------------------------------------|---------------------------|---------------------------|
|                                            | Ushs'000                  | Ushs'000                  |
| Gross loans and advances                   | 181,430,341               | 194,555,462               |
| Specific provisions for loans and advances | (19,264,768)              | (3,079,894)               |
| Interest in suspense                       | (6,745,537)               | (801,256)                 |
| <b>Net loans and advances</b>              | <b><u>155,420,036</u></b> | <b><u>190,624,312</u></b> |

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

|                                                    | 2020                     | 2019                     |
|----------------------------------------------------|--------------------------|--------------------------|
|                                                    | Ushs'000                 | Ushs'000                 |
| Balance with Banks                                 | 28,621,566               | 27,217,003               |
| Balance with other Institutions in Uganda          | 24,149,727               | 3,236,870                |
| <b>Total per Capital Computation</b>               | <b><u>52,771,293</u></b> | <b><u>30,453,873</u></b> |
| Less: Impairment Allowances                        | (356,576)                | (339,419 )               |
| <b>Balance per statement of financial position</b> | <b><u>52,414,717</u></b> | <b><u>30,114,454</u></b> |

Other assets as per the capital computation is made up of other assets and related party receivable as per statement of financial position.

### 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 has commenced the implementation of Basel II. It is expected that parallel run of both BASEL I and II will be conducted commencing 30th June 2021 to 31st December 2021 and thereafter full transition 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.

Financial institutions that do not currently comply with the aforementioned regulations shall be granted a phase in period of twelve months starting from 31st December 2020, when the Regulations came into force, in which to build up capital buffers.

### 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 company members to exert pressure on company members who have defaulted.

### COVID-19 Pandemic Consideration

On 11 March 2020, the World Health Organization declared Coronavirus (COVID-19) outbreak a pandemic in recognition of its rapid spread across the globe. COVID-19 affected the Bank and results in certain uncertainties for the future financial position and performance of the Bank. The COVID-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to levels of uncertainty.

- The Government of Uganda has put in place measures to prevent the spread of COVID-19 in Uganda as follows;
- Opening up of non-essential services done in a phased manner Curfew from 9.00 pm to 5.30 am
- Restriction on public gatherings to not exceeding 200 people
- Opening up of schools in a phased manner Curfew on "Boda-Boda" Motorbikes at 6.00 pm
- Public and private transport opened up with strict SOPs

### BRAC Uganda Bank Limited's position on the pandemic;

In response to the pandemic, BRAC Uganda Bank Limited gave payment holidays to all customers from April to May and closed operations during the same period. No disbursements or collections were made during this period. However, upon the expiry of the period, some facilities still couldn't meet their obligations, and were further given restructures.

### Macroeconomic Forward-looking information for measuring of ECL.

As a re-suit of COVID-19 Pandemic, the global economy suffered a heavy blow 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, fx 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.

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 O means otherwise. In regression analysis, a dummy variable is one that takes only the value O 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 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 40%, 20% and 40% respectively from 50%, 30% and 20% respectively because of the assumption that it is impossible for the economy to boom in the near term and thus a 20% chance was chosen for the best case scenario.

**Effects of the Covid-19 Pandemic on the performance of the Bank**

Refer to note 4 for the effect of Covid-19 Pandemic on the performance of the Bank.

**Use of estimates and judgements**

There have been no material revisions to the nature and estimates of amounts reported in prior periods. However, the effects of COVID-19 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**

The COVID-19 pandemic continues to affect the Bank, countries and businesses at the time of issuing these financial statements. The directors expect that considering that the Bank is an essential service provider, the Bank's operations will continue despite the disruption caused by the pandemic. The directors have also assessed that no adjusting events or conditions existed at the reporting date affecting the financial statements.

The Bank's management and directors are closely monitoring the economic developments in the key markets and sectors including undertaking scenario analysis. This enables the Bank's management and directors to take appropriate actions where necessary, including enhanced monitoring, amending the Bank's risk appetite and/or reducing limits and exposures.

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 judgments 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

**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.

**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).

|                                 | 2020               | 2019               |
|---------------------------------|--------------------|--------------------|
|                                 | Ushs'000           | Ushs'000           |
| Cash and bank                   | 17,187,967         | 14,810,033         |
| Deposits with Banks             | 38,182,880         | 17,184,803         |
| Loans and advances to customers | 152,900,190        | 187,930,835        |
| Other assets                    | 5,102,740          | 4,322,231          |
|                                 | <b>213,373,777</b> | <b>224,247,902</b> |

The above table represents the worst-case scenario of credit risk exposure to the Bank at 31 December 2020 and 31 December 2019 without taking into account 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

|                       | 2020               |                  |                   |                    |
|-----------------------|--------------------|------------------|-------------------|--------------------|
|                       | Stage 1            | Stage 2          | Stage 3           | Total              |
|                       | Ushs'000           | Ushs'000         | Ushs'000          | Ushs'000           |
| Current: 0.-7 days    | 134,383,889        | –                | –                 | 134,383,889        |
| Current: 8-29 days    | 4,642,313          | 1,974,874        | –                 | 6,617,187          |
| Overdue: 30- 59 days  | –                  | 5,008,827        | –                 | 5,008,827          |
| Overdue: 60-89 days   | –                  | 746,793          | 4,729,356         | 5,476,149          |
| Overdue: 90-179 days  | –                  | –                | 17,372,248        | 17,372,248         |
| Overdue 180- 364 days | –                  | –                | 3,762,371         | 3,762,371          |
| Overdue:> 364 days    |                    |                  | 1,937,153         | 1,937,153          |
| <b>Total</b>          | <b>139,026,202</b> | <b>7,730,494</b> | <b>27,801,128</b> | <b>174,557,824</b> |

|                       | 2019               |                  |                  |                    |
|-----------------------|--------------------|------------------|------------------|--------------------|
|                       | Stage 1            | Stage 2          | Stage 3          | Total              |
|                       | Ushs'000           | Ushs'000         | Ushs'000         | Ushs'000           |
| Current: 0.-7 days    | 180,028,963        | -                | -                | 180,028,963        |
| Current: 8-29 days    | 2,436,349          | 3,210,157        | -                | 5,646,506          |
| Overdue: 30- 59 days  | –                  | 417,120          | 822,865          | 1,239,985          |
| Overdue: 60-89 days   | –                  | 383,475          | 668,226          | 1,051,701          |
| Overdue: 90-179 days  | –                  | -                | 2,424,028        | 2,424,028          |
| Overdue 180- 364 days | –                  | -                | 1,582,450        | 1,582,450          |
| Overdue:> 364 days    | –                  | -                | 235,005          | 235,005            |
| <b>Total</b>          | <b>182,465,312</b> | <b>4,010,752</b> | <b>5,732,574</b> | <b>192,208,638</b> |

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.

|                                      | 2020               |                  |                  |                    |                    |
|--------------------------------------|--------------------|------------------|------------------|--------------------|--------------------|
|                                      | Stage 1            | Stage 2          | Stage 3          | Total              | 2019               |
|                                      | Ushs'000           | Ushs'000         | Ushs'000         | Ushs'000           | Ushs'000           |
| Loans and advances at amortized cost |                    |                  |                  |                    |                    |
| Expected credit loss                 | 139,026,202        | 7,730,494        | 27,801,128       | 174,557,824        | 192,208,638        |
| allowance                            | (60,104}           | (218,849}        | (21,378,681)     | (21,657,634)       | (4,277,803)        |
| <b>Carrying amount</b>               | <b>138,966,098</b> | <b>7,511,645</b> | <b>6,422,447</b> | <b>152,900,190</b> | <b>187,930,835</b> |

#### 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 |
|-----------------|------------------------------------------------------------------|------|-----------------------------------|
|                 | 2020                                                             | 2019 |                                   |
| 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 value of identifiable collateral held against the loans and advances

|               | 2020            |            | 2019            |            |
|---------------|-----------------|------------|-----------------|------------|
|               | Carrying amount | Collateral | Carrying amount | Collateral |
|               | Ushs'000        | Ushs'000   | Ushs'000        | Ushs'000   |
| Stage 1 and 2 | 146,756,696     | 22,669,127 | 186,476,064     | 18,986,727 |
| Stage 3       | 27,801,128      | 6,727,493  | 5,732,574       | 657,922    |

#### Amounts arising from EGL

The following table show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2019 represent the allowance account for credit losses and reflect the measurement basis under IFRS 9.

|                               | 2020              | 2019             |
|-------------------------------|-------------------|------------------|
|                               | 12-month ECL      | 12-month ECL     |
|                               | Ushs '000         | Ushs'000         |
| Balance at 1 January          | 4,277,803         | 7,230,674        |
| Change during the year        | 19,431 ,419       | 1,431,332        |
| Financial assets derecognized | (2,051,588)       | (4,384,203)      |
| <b>Balance at 31 December</b> | <b>21,657,634</b> | <b>4,277,803</b> |

ECL disclosures for financial assets

|                     | 12 month ECL   | Impaired       | Impaired          | Total             |
|---------------------|----------------|----------------|-------------------|-------------------|
| 2020                | Ushs’000       | Ushs’000       | Ushs’000          | Ushs’000          |
| Cash and Bank       | 96,819         | -              | -                 | -                 |
| Short term deposits | 259,757        | -              | -                 | -                 |
| Loans and advances  | 60,104         | 218,849        | 21,378,681        | 21,657,634        |
| <b>Total</b>        | <b>416,680</b> | <b>218,849</b> | <b>21,378,681</b> | <b>22,014,210</b> |

ECL disclosures for financial assets

|                     | 12 month ECL     | Impaired      | Impaired         | Total            |
|---------------------|------------------|---------------|------------------|------------------|
| 2019                | Ushs’000         | Ushs’000      | Ushs’000         | Ushs’000         |
| Cash and Bank       | 145,472          | -             | -                | 145,472          |
| Short term deposits | 193,947          | -             | -                | 193,947          |
| Loans and advances  | 674,750          | 42,932        | 3,560,121        | 4,277,803        |
| <b>Total</b>        | <b>1,014,169</b> | <b>42,932</b> | <b>3,560,121</b> | <b>4,617,222</b> |

Inputs, assumptions and techniques used for estimating impairment significant increase in credit risk

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).

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.

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

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 the table below;

Non-micro portfolio

|                        | Private Time and Savings Deposits (UShs billion) | Inflation Core | Credit - Domestic (UShs billion) | Terms of Trade | CPIs   |
|------------------------|--------------------------------------------------|----------------|----------------------------------|----------------|--------|
| As at 31 December 2020 | 8,752                                            | 0.05           | 24,499                           | 126            | -      |
| As at 31 December 2019 | -                                                | -              | -                                | -              | 170.33 |

Micro portfolio

|                        | Central Bank Rate | CPIs   |
|------------------------|-------------------|--------|
| As at 31 December 2020 | 7.55%             | -      |
| As at 31 December 2019 | -                 | 170.33 |

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 de recognised 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;
- Discount 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.

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

| ECL Movement for loans and advances   | Stage 1      | Stage 2       | Stage 3       |             |
|---------------------------------------|--------------|---------------|---------------|-------------|
|                                       | 12-month ECL | Life time ECL | Life time ECL | Total       |
|                                       | Ushs'000     | Ushs'000      | Ushs'000      | Ushs'000    |
| Loss allowance as at 1 January 2020   | 674,750      | 42,932        | 3,560,121     | 4,277,803   |
| Movement during the period            | (614,646)    | 175,917       | 19,870,148    | 19,431,419  |
| Write off                             | -            | -             | (2,051,588)   | (2,051,588) |
| Loss allowance as at 31 December 2020 | 60,104       | 218,849       | 21,378,681    | 21,657,634  |

Cash and cash equivalents

|                                        | 2020     | 2019     |
|----------------------------------------|----------|----------|
|                                        | Ushs'000 | Ushs'000 |
| Balance as at 1 January                | 145,472  | 167,258  |
| Net re-measurements of loss allowances | (48,653) | (21,786) |
| Balance at 31 December                 | 96,819   | 145,472  |

Deposits and balances due from banks

|                                              | 2020     | 2019      |
|----------------------------------------------|----------|-----------|
|                                              | Ushs'000 | Ushs'000  |
| Balance as at 1 January                      | 193,947  | 296,768   |
| Net re-measurements of loss allowances       | 65,810   | (102,821) |
| New financial assets originated or purchased | -        | -         |
| Foreign exchange and other movements         | -        | -         |
| Balance at 31 December                       | 259,757  | 193,947   |

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.

|                            | Loans and advances to customers at amortized cost | Investments at amortized cost | Cash and cash equivalents | Total       |
|----------------------------|---------------------------------------------------|-------------------------------|---------------------------|-------------|
| Balance at 1 January       | 4,277,803                                         | 193,947                       | 145,472                   | 4,617,222   |
| Charge during the year     | 19,431,419                                        | 65,810                        | (48,653)                  | 19,448,576  |
| Write offs during the year | (2,051,588)                                       | -                             | -                         | (2,051,588) |
| Balance at 31 December     | 21,657,634                                        | 259,757                       | 96,819                    | 22,014,210  |

|                            | Loans and advances to customers at amortized cost | Investments at amortized cost | Cash and cash equivalents | Total       |
|----------------------------|---------------------------------------------------|-------------------------------|---------------------------|-------------|
| Balance at 1 January       | 7,230,674                                         | 296,768                       | 167,258                   | 7,694,700   |
| Charge during the year     | 1,431,332                                         | (102,821)                     | (21,786)                  | 1,306,725   |
| Write offs during the year | (4,384,203)                                       | -                             | -                         | (4,384,203) |
| Balance at 31 December     | 4,277,803                                         | 193,947                       | 145,472                   | 4,617,222   |

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   | 2020        | 2019        |
|---------------------------|-------------|-------------|
|                           | Ushs'000    | Ushs'000    |
| Agriculture               | 29,260,934  | 32,084,530  |
| Mining and quarrying      | 623,659     | 651,360     |
| Manufacturing             | 4,069,392   | 1,943,386   |
| Trade and commerce        | 119,514,496 | 129,081,952 |
| Transport and Utilities   | 563,415     | 189,650     |
| Building and construction | 4,357,427   | 6,367,455   |
| Other services            | 16,168,501  | 21,890,305  |
| Total                     | 174,557,824 | 192,208,638 |

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.

| Year ended 31 December 2020                    | Up to 1 month    | From 1 to 3 months | From 3 to 12 months | Above 12 months    | Non- interest bearing | Total              |
|------------------------------------------------|------------------|--------------------|---------------------|--------------------|-----------------------|--------------------|
| Financial Assets                               | Average interest | Ushs '000          | Ushs '000           | Ushs '000          | Ushs '000             | Ushs '000          |
| Cash and balances with the central bank        |                  | -                  | -                   | -                  | 2,956,130             | 2,956,130          |
| Deposits due from other financial Institutions | 12.25%           | 19,437,780         | 16,732,037          | 16,244,900         | -                     | 52,414,717         |
| Loans and advances to customers                | 27.95%           | 19,668,842         | 39,337,684          | 93,893,664         | -                     | 152,900,190        |
| Related party receivable                       |                  | -                  | -                   | -                  | 1,871,109             | 1,871,109          |
| <b>Total financial assets</b>                  |                  | <b>39,106,622</b>  | <b>56,069,721</b>   | <b>110,138,564</b> | <b>4,827,239</b>      | <b>210,142,146</b> |
| <b>Non-Financial Assets</b>                    |                  |                    |                     |                    |                       |                    |
| Work in progress                               |                  | -                  | -                   | -                  | 3,489,711             | 3,489,711          |
| Right of use                                   |                  | -                  | -                   | -                  | 11,970,207            | 11,970,207         |
| Property and Equipment                         |                  | -                  | -                   | -                  | 15,187,482            | 15,187,482         |
| Intangible assets                              |                  | -                  | -                   | -                  | 5,114,567             | 5,114,567          |
| Deferred tax asset                             |                  | -                  | -                   | -                  | 9,831,731             | 9,831,731          |
| Other assets                                   |                  | -                  | -                   | -                  | 3,231,640             | 3,231,640          |
| <b>Total Non-Financial assets</b>              |                  | <b>-</b>           | <b>-</b>            | <b>-</b>           | <b>48,825,338</b>     | <b>48,825,338</b>  |
| <b>Total assets</b>                            |                  | <b>39,106,622</b>  | <b>56,069,721</b>   | <b>110,138,564</b> | <b>53,652,577</b>     | <b>258,967,484</b> |
| <b>Financial liabilities</b>                   |                  |                    |                     |                    |                       |                    |
| Loan Security fund                             |                  | -                  | -                   | -                  | 33,159,712            | 33,159,712         |
| Customer deposits                              |                  | 28,226,575         | 2,428,766           | 20,574,627         | 1,668                 | 51,231,636         |
| Related party payables                         |                  | -                  | -                   | -                  | 4,071                 | 4,071              |
| Borrowings and managed funds                   | 13.28%           | -                  | 4,967,856           | 71,221,378         | 35,400,787            | 111,590,021        |
| Tax payable                                    |                  | -                  | -                   | -                  | 509,719               | 509,719            |
| Lease liability                                |                  | 327,152            | 504,731             | 2,145,027          | 9,931,839             | 12,908,749         |
| Other liabilities                              |                  | -                  | -                   | -                  | 5,652,916             | 5,652,916          |
| <b>Total financial liabilities</b>             |                  | <b>28,553,727</b>  | <b>7,901,353</b>    | <b>93,941,032</b>  | <b>39,326,418</b>     | <b>215,056,824</b> |
| Donor funds                                    |                  | -                  | -                   | -                  | 5,154,679             | 5,154,679          |
| <b>Total non-financial liabilities</b>         |                  | <b>-</b>           | <b>-</b>            | <b>-</b>           | <b>5,154,679</b>      | <b>5,154,679</b>   |
| <b>Total equity</b>                            |                  | <b>-</b>           | <b>-</b>            | <b>-</b>           | <b>38,755,981</b>     | <b>38,755,981</b>  |
| <b>Total liabilities and equity</b>            |                  | <b>28,553,727</b>  | <b>7,901,353</b>    | <b>93,941,032</b>  | <b>83,237,078</b>     | <b>258,967,484</b> |
| <b>Interest rate gap</b>                       |                  | <b>10,552,895</b>  | <b>48,438,368</b>   | <b>16,197,532</b>  | <b>(45,604,294)</b>   | <b>-</b>           |

| Year ended 31 December 2019                    | Up to 1 month      | From 1 to 3 months | From 3 to 12 months | Above 12 months    | Non- interest bearing | Total              |
|------------------------------------------------|--------------------|--------------------|---------------------|--------------------|-----------------------|--------------------|
| Financial Assets                               | Aver- age interest | Ushs '000          | Ushs '000           | Ushs '000          | Ushs '000             | Ushs '000          |
| Cash and balances with the central bank        |                    | -                  | -                   | -                  | 1,880,383             | 1,880,383          |
| Deposits due from other financial Institutions | 10%                | 12,929,651         | 5,095,584           | 12,089,219         | -                     | 30,114,454         |
| Loans and advances to customers                | 47%                | 30,040,217         | 42,798,000          | 114,905,194        | 187,423               | 187,930,834        |
| Related party receivable                       |                    | -                  | -                   | -                  | 2,358,442             | 2,358,442          |
| <b>Total financial assets</b>                  |                    | <b>42,969,868</b>  | <b>47,893,584</b>   | <b>126,994,413</b> | <b>187,423</b>        | <b>222,284,113</b> |
| <b>Non-Financial Assets</b>                    |                    |                    |                     |                    |                       |                    |
| Property and equipment and right of use        |                    | -                  | -                   | -                  | 29,429,911            | 29,429,911         |
| Intangible assets                              |                    | -                  | -                   | -                  | 5,482,294             | 5,482,294          |
| Other assets                                   |                    | -                  | -                   | -                  | 2,074,125             | 2,074,125          |
| <b>Total non-financial assets</b>              |                    | <b>-</b>           | <b>-</b>            | <b>-</b>           | <b>36,986,330</b>     | <b>36,986,330</b>  |
| <b>Total assets</b>                            |                    | <b>42,969,868</b>  | <b>47,893,584</b>   | <b>126,994,413</b> | <b>41,225,155</b>     | <b>259,270,443</b> |
| <b>Financial liabilities</b>                   |                    |                    |                     |                    |                       |                    |
| Loan Security fund                             |                    | -                  | -                   | -                  | 34,460,912            | 34,460,912         |
| Customer deposits                              |                    | 11,606,141         | -                   | 6,944,621          | -                     | 18,550,762         |
| Related party payables                         |                    | -                  | -                   | -                  | 24,985,444            | 24,985,444         |
| Borrowings and managed funds                   | 14%                | 433,117            | 3,778,000           | 22,268,621         | 1,143,801             | 92,751,968         |
| Tax payable                                    |                    | -                  | -                   | -                  | 740,866               | 740,866            |
| Other liabilities                              |                    | -                  | -                   | 11,911,481         | 6,674,395             | 18,585,876         |
| <b>Total financial liabilities</b>             |                    | <b>12,039,258</b>  | <b>3,778,000</b>    | <b>29,213,242</b>  | <b>68,005,418</b>     | <b>190,075,828</b> |
| <b>Non-Financial liabilities</b>               |                    |                    |                     |                    |                       |                    |
| Donor funds                                    |                    | -                  | -                   | -                  | 406,548               | 406,548            |
| Deferred tax payable                           |                    | -                  | -                   | -                  | 1,785,721             | 1,785,721          |
| <b>Total non- financial liabilities</b>        |                    | <b>-</b>           | <b>-</b>            | <b>-</b>           | <b>2,192,269</b>      | <b>2,192,269</b>   |
| <b>Total equity</b>                            |                    | <b>-</b>           | <b>-</b>            | <b>-</b>           | <b>67,002,346</b>     | <b>67,002,346</b>  |
| <b>Total liabilities and equity</b>            |                    | <b>12,039,258</b>  | <b>3,778,000</b>    | <b>29,213,242</b>  | <b>137,200,033</b>    | <b>259,270,443</b> |
| <b>Interest sensitive gap</b>                  |                    | <b>30,930,610</b>  | <b>44,115,584</b>   | <b>97,781,171</b>  | <b>(76,852,487)</b>   | <b>-</b>           |

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% increase/decrease in interest rates in the current year would affect profit and loss by Ushs +/-1,786,987,874.

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 2020 to the contractual maturity date.

**Liquidity risk (continued)**

| <b>31 December 2020</b>                        | <b>Up to 1 month</b> | <b>From 1 to 3 months</b> | <b>From 3 to 12 months</b> | <b>Above 12 months</b> | <b>Total</b>       |
|------------------------------------------------|----------------------|---------------------------|----------------------------|------------------------|--------------------|
| <b>Assets</b>                                  | <b>Ushs '000</b>     | <b>Ushs '000</b>          | <b>Ushs '000</b>           | <b>Ushs '000</b>       | <b>Ushs '000</b>   |
| <b>Financial Assets</b>                        |                      |                           |                            |                        |                    |
| Cash and Bank with the central bank            | 2,956,130            | -                         | -                          | -                      | 2,956,130          |
| Deposits due from other financial Institutions | 19,437,780           | 16,732,037                | 16,244,900                 | -                      | 52,414,717         |
| Loans and advances to customers                | 19,668,842           | 39,337,684                | 93,893,664                 | -                      | 152,900,190        |
| Related party receivable                       | -                    | -                         | 1,871,109                  | -                      | 1,871,109          |
| <b>Total financial assets</b>                  | <b>42,062,752</b>    | <b>56,069,721</b>         | <b>112,009,673</b>         | <b>-</b>               | <b>210,142,146</b> |
| <b>Non-Financial Assets</b>                    |                      |                           |                            |                        |                    |
| Work in progress                               | -                    | -                         | -                          | 3,489,711              | 3,489,711          |
| Property and equipment                         | -                    | -                         | -                          | 15,187,482             | 15,187,482         |
| Intangible assets                              | -                    | -                         | -                          | 5,114,567              | 5,114,567          |
| Right of use                                   | -                    | -                         | -                          | 11,970,207             | 11,970,207         |
| Deferred tax asset                             | -                    | -                         | 9,831,731                  | -                      | 9,831,731          |
| Other assets                                   | 630,662              | 428,997                   | 1,872,835                  | 299,146                | 3,231,640          |

**Liquidity risk (continued)**

| <b>Total Non-Financial assets</b>      | <b>630,662</b>    | <b>428,997</b>    | <b>11,704,566</b>  | <b>36,061,113</b> | <b>48,825,338</b>  |
|----------------------------------------|-------------------|-------------------|--------------------|-------------------|--------------------|
| <b>Total assets</b>                    | <b>42,693,414</b> | <b>56,498,718</b> | <b>123,714,239</b> | <b>36,061,113</b> | <b>258,967,484</b> |
| <b>Financial liabilities</b>           |                   |                   |                    |                   |                    |
| Loan security fund                     | 16,962,410        | 2,256,176         | 13,248,186         | 692,940           | 33,159,712         |
| Customer deposits                      | 28,226,575        | 2,428,766         | 20,574,627         | 1,668             | 51,231,636         |
| Related party payables                 | -                 | -                 | 4,071              | -                 | 4,071              |
| Borrowings and managed funds           | -                 | 6,432,179         | 62,928,416         | 73,002,789        | 142,363,384        |
| Other liabilities                      | 5,020,618         | 632,298           | -                  | -                 | 5,652,916          |
| Tax payable                            | -                 | -                 | 509,719            | -                 | 509,719            |
| Lease liability                        | -                 | -                 | 3,296,363          | 15,583,274        | 18,879,637         |
| <b>Total financial liabilities</b>     | <b>50,536,755</b> | <b>10,519,827</b> | <b>107,703,008</b> | <b>46,297,234</b> | <b>251,801,075</b> |
| <b>Non-Financial liabilities</b>       |                   |                   |                    |                   |                    |
| Donor funds                            | -                 | -                 | -                  | 5,154,679         | 5,154,679          |
| Deferred tax liability                 | -                 | -                 | -                  | -                 | -                  |
| <b>Total non-financial liabilities</b> | <b>-</b>          | <b>-</b>          | <b>-</b>           | <b>5,154,679</b>  | <b>5,154,679</b>   |
| <b>Total equity</b>                    | <b>-</b>          | <b>-</b>          | <b>-</b>           | <b>38,755,981</b> | <b>38,755,981</b>  |
| <b>Total liabilities and equity</b>    | <b>50,536,755</b> | <b>10,519,827</b> | <b>107,703,008</b> | <b>90,207,894</b> | <b>290,557,056</b> |

|                      |                    |                   |                   |                     |                     |
|----------------------|--------------------|-------------------|-------------------|---------------------|---------------------|
| <b>Liquidity gap</b> | <b>(7,843,341)</b> | <b>45,978,891</b> | <b>16,011,231</b> | <b>(54,146,781)</b> | <b>(31,589,572)</b> |
|----------------------|--------------------|-------------------|-------------------|---------------------|---------------------|

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2019 to the contractual maturity date

| <b>Liquidity risk (continued)</b>              | <b>Up to 1 montht</b> | <b>From 1 to 3 months</b> | <b>From 3 to 12 months</b> | <b>Above 12 months</b> | <b>Total</b>       |
|------------------------------------------------|-----------------------|---------------------------|----------------------------|------------------------|--------------------|
| <b>31 December 2019</b>                        |                       |                           |                            |                        |                    |
| <b>Assets</b>                                  | <b>Ushs '000</b>      | <b>Ushs '000</b>          | <b>Ushs '000</b>           | <b>Ushs '000</b>       | <b>Ushs '000</b>   |
| <b>Financial Assets</b>                        |                       |                           |                            |                        |                    |
| Cash and Bank with the central bank            | 1,880,383             | -                         | -                          | -                      | <b>1,880,383</b>   |
| Deposits due from other financial Institutions | 12,929,651            | 5,095,584                 | 12,089,218                 | -                      | <b>30,114,453</b>  |
| Loans and advances to customers                | 30,040,217            | 42,798,000                | 114,905,195                | 187,423                | <b>187,930,835</b> |
| Related party receivable                       | -                     | -                         | 2,358,442                  | -                      | <b>2,358,442</b>   |
| <b>Total financial assets</b>                  | <b>44,850,251</b>     | <b>47,893,584</b>         | <b>129,352,855</b>         | <b>187,423</b>         | <b>222,284,113</b> |
| <b>Non-Financial Assets</b>                    |                       |                           |                            |                        |                    |
| Work in progress                               | -                     | 110,335                   | -                          | -                      | <b>110,335</b>     |
| Property and equipment                         | -                     | -                         | -                          | 29,429,911             | <b>29,429,911</b>  |
| Intangible assets                              | -                     | -                         | -                          | 5,482,294              | <b>5,482,294</b>   |
| Other assets                                   | 359,859               | 532,054                   | 837,290                    | 234,587                | <b>1,963,790</b>   |
| <b>Total non-financial assets</b>              | <b>359,859</b>        | <b>642,389</b>            | <b>837,290</b>             | <b>35,146,792</b>      | <b>36,986,330</b>  |
| <b>Total assets</b>                            | <b>45,210,110</b>     | <b>48,535,973</b>         | <b>130,190,145</b>         | <b>35,334,215</b>      | <b>259,270,443</b> |

| Liquidity risk (continued)             | Up to 1 montht    | From 1 to 3 months | From 3 to 12 months | Above 12 months      | Total              |
|----------------------------------------|-------------------|--------------------|---------------------|----------------------|--------------------|
| <b>Financial liabilities</b>           |                   |                    |                     |                      |                    |
| Loan Security fund                     | 5,137,502         | 6,622,625          | 22,700,785          | -                    | <b>34,460,912</b>  |
| Customer deposits                      | 11,606,141        | -                  | 6,944,621           | -                    | <b>18,550,762</b>  |
| Related party payables                 | -                 | -                  | 24,985,444          | -                    | <b>24,985,444</b>  |
| Borrowings and managed funds           | 433,117           | 3,778,000          | 23,412,422          | 65,128,429           | <b>92,751,968</b>  |
| Tax payable                            | -                 | -                  | 740,866             | -                    | <b>740,866</b>     |
| Lease liability                        | -                 | -                  | 3,337,078           | 17,612,441           | <b>20,949,519</b>  |
| Other liabilities                      | 2,514,333         | 181,255            | 770,303             | 3,208,504            | <b>6,674,395</b>   |
| <b>Total financial liabilities</b>     | <b>24,178,307</b> | <b>10,905,356</b>  | <b>80,929,165</b>   | <b>74,063,000</b>    | <b>199,113,866</b> |
| <b>Non-Financial liabilities</b>       |                   |                    |                     |                      |                    |
| Donor funds                            | -                 | -                  | 406,548             | -                    | <b>406,548</b>     |
| Deferred tax liability                 | -                 | -                  | 1,785,721           | -                    | <b>1,785,721</b>   |
| <b>Total non-financial liabilities</b> | <b>-</b>          | <b>-</b>           | <b>2,192,269</b>    | <b>-</b>             | <b>2,192,269</b>   |
| <b>Total equity</b>                    | <b>-</b>          | <b>-</b>           | <b>4,544,175</b>    | <b>62,458,171</b>    | <b>67,002,346</b>  |
| <b>Total liabilities and equity</b>    | <b>24,178,307</b> | <b>10,905,356</b>  | <b>87,665,609</b>   | <b>136,521,171</b>   | <b>266,116,212</b> |
| <b>Liquidity gap</b>                   | <b>21,031,803</b> | <b>37,630,617</b>  | <b>42,524,536</b>   | <b>(101,186,956)</b> | <b>(6,845,769)</b> |

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.

The table below summarizes the Bank's exposure to foreign currency risk as at 31 December 2020

|                                 | Ushs               | 2020<br>USD         | Total              | Ushs               | 2019<br>USD        | Total              |
|---------------------------------|--------------------|---------------------|--------------------|--------------------|--------------------|--------------------|
|                                 | Ushs ‘000          | Ushs ‘000           | Ushs ‘000          | Ushs ‘000          | Ushs ‘000          | Ushs ‘000          |
| <b>ASSETS</b>                   |                    |                     |                    |                    |                    |                    |
| Cash and Bank                   | 16,741,566         | 446,401             | 17,187,967         | 14,676,867         | 133,166            | 14,810,033         |
| Deposits due from banks         | 38,182,880         | -                   | 38,182,880         | 17,184,803         | -                  | 17,184,803         |
| Loans and advances to customers | 152,900,190        | -                   | 152,900,190        | 187,930,835        | -                  | 187,930,835        |
| Related party receivable        | 1,871,109          | -                   | 1,871,109          | 2,358,442          | -                  | 2,358,442          |
| Other assets                    | 3,231,640          | -                   | 3,231,640          | 1,963,789          | -                  | 1,963,789          |
|                                 | <b>212,927,385</b> | <b>446,401</b>      | <b>213,373,786</b> | <b>224,114,736</b> | <b>133,166</b>     | <b>224,247,902</b> |
| <b>Equity and Liabilities</b>   |                    |                     |                    |                    |                    |                    |
| Loan Security Fund              | 33,159,712         | -                   | 33,159,712         | 34,460,912         | -                  | 34,460,912         |
| Voluntary savings               | 51,231,636         | -                   | 51,231,636         | 18,550,762         | -                  | 18,550,762         |
| Related party payables          | 4,071              | -                   | 4,071              | 24,985,444         | -                  | 24,985,444         |
| Borrowings and managed funds    | 98,818,745         | 12,771,276          | 111,590,021        | 91,608,167         | 1,143,801          | 92,751,968         |
| Other liabilities               | 5,952,916          | -                   | 5,952,916          | 6,674,395          | -                  | 6,674,395          |
| Tax payable                     | 509,719            | -                   | 509,719            | 2,369,848          | -                  | 2,369,848          |
|                                 | <b>189,676,799</b> | <b>12,771,276</b>   | <b>202,448,075</b> | <b>178,649,528</b> | <b>1,143,801</b>   | <b>179,793,329</b> |
| <b>Net position</b>             | <b>23,250,586</b>  | <b>(12,324,875)</b> | <b>10,925,711</b>  | <b>45,465,208</b>  | <b>(1,010,635)</b> | <b>44,454,573</b>  |

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.

|                     | 2020<br>Ushs ‘000<br>Effect on Profit | 2019<br>Ushs ‘000<br>Effect on Profit |
|---------------------|---------------------------------------|---------------------------------------|
| <b>Currency-USO</b> |                                       |                                       |
| +5% US\$ Movement   | (65,897)                              | (50,532)                              |
| -5% US\$ Movement   | 65,897                                | 50,532                                |

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 contro ls 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. -

33. FAIR VALUES OF FINANCIAJ\_ 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.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value. hierarchy into which each fair value measurement is categorised.

| At 31 December 2020             | Level 1 | Level 2     | Level 3 | Total fair values (Ushs'000) | Total carrying amount (Ushs'000) |
|---------------------------------|---------|-------------|---------|------------------------------|----------------------------------|
| <b>Assets</b>                   |         |             |         |                              |                                  |
| Cash and cash equivalents       | -       | 17,187,967  | -       | 17,187,967                   | 17,187,967                       |
| Short term deposits             | -       | 38,182,880  | -       | 38,182,880                   | 38,182,880                       |
| Loans and advances to customers | -       | 152,900,190 | -       | 152,900,190                  | 152,900,190                      |
| Related party receivables       | -       | 1,871,109   | -       | 1,871,109                    | 1,871,109                        |
| Other assets                    | -       | 3,231,640   | -       | 3,231,640                    | 3,231,640                        |
| <b>Liabilities</b>              |         |             |         |                              |                                  |
| Loan security fund              | -       | 33,159,712  | -       | 33,159,712                   | 33,159,712                       |
| Deposits from customers         | -       | 51,231,636  | -       | 51,231,636                   | 51,231,636                       |
| Related party payables          | -       | 4,071       | -       | 4,071                        | 4,071                            |
| Borrowings and managed funds    | -       | 111,590,021 | -       | 111,590,021                  | 111,590,021                      |
| Tax payable                     | -       | 509,719     | -       | 509,719                      | 509,719                          |
| Other liabilities               | -       | 5,652,916   | -       | 5,652,916                    | 5,652,916                        |

| At 31 December 2019             | Level 1 | Level 2     | Level 3 | Total fair val- ues (Ushs'000) | Total carrying amount (Ushs'000) |
|---------------------------------|---------|-------------|---------|--------------------------------|----------------------------------|
| <b>Assets</b>                   |         |             |         |                                |                                  |
| Cash and cash equivalents       | -       | 14,810,033  | -       | 14,810,033                     | 14,810,033                       |
| Short term deposits             | -       | 17,184,803  | -       | 17,184,803                     | 17,184,803                       |
| Loans and advances to customers | -       | 187,930,835 | -       | 187,930,835                    | 187,930,835                      |
| Related party receivables       | -       | 2,358,442   | -       | 2,358,442                      | 2,358,442                        |
| Other assets                    | -       | 1,963,788   | -       | 1,963,788                      | 1,963,788                        |
| <b>Liabilities</b>              |         |             |         |                                |                                  |
| Loan security fund              | -       | 34,460,912  | -       | 34,460,912                     | 34,460,912                       |
| Deposits from customers         | -       | 18,550,762  | -       | 18,550,762                     | 18,550,762                       |
| Related party payables          | -       | 24,985,444  | -       | 24,985,444                     | 24,985,444                       |
| Borrowings and managed funds    | -       | 92,752,968  | -       | 92,752,968                     | 92,752,968                       |
| Tax payable                     | -       | 740,866     | -       | 740,866                        | 740,866                          |
| Other liabilities               |         | 6,674,395   | -       | 6,674,395                      | 6,674,395                        |

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. The fair value of short-term deposits is the amount receivable at the reporting date.

**34. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

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

|                                                        | Liabilities                      |                      |                    |                      | Equity           |                     |
|--------------------------------------------------------|----------------------------------|----------------------|--------------------|----------------------|------------------|---------------------|
|                                                        | Other<br>loans and<br>Borrowings | Lease<br>Liabilities | Ordinary<br>Shares | Retained<br>Earnings | Reserves         | Total               |
| Balance as at 31<br>December 2019                      | 92,751,968                       | 11,911,481           | 43,000,000         | 18,818,879           | 639,292          | 167,121,620         |
| <b>Changes from<br/>financing cash<br/>flows</b>       |                                  | -                    | -                  | -                    | -                | -                   |
| Current year profits                                   | -                                | -                    | -                  | (28,246,366)         | -                | (28,246,366)        |
| Proceeds from<br>loans and<br>borrowings               | 48,925,480                       | -                    | -                  | -                    | -                | 48,925,480          |
| Repayment of<br>borrowings                             | (30,874,777)                     | -                    | -                  | -                    | -                | (30,874,777)        |
| New leases during<br>the year                          | -                                | 2,791,049            |                    |                      |                  | 2,791,049           |
| Payment of lease<br>liabilities                        | -                                | (3,580,134)          | -                  | -                    | -                | (3,580,134)         |
| <b>Total changes<br/>from financing<br/>cash flows</b> | <b>18,050,703</b>                | <b>(789,085)</b>     |                    | <b>(28,246,366)</b>  | <b>-</b>         | <b>(10,984,748)</b> |
| Effect of changes<br>in foreign exchange<br>rates      | (172,085)                        | -                    | -                  | -                    | -                | (172,085)           |
| Other changes                                          | -                                | -                    | -                  | -                    | -                | -                   |
| Liability-related                                      | -                                | -                    | -                  | -                    | -                | -                   |
| New finance leases                                     | -                                | -                    | -                  | -                    | -                | -                   |
| Capitalized<br>borrowing costs                         | -                                | -                    | -                  | -                    | -                | -                   |
| Interest expense                                       | 17,217,387                       | 1,786,353            |                    |                      | -                | 19,003,740          |
| Interest paid                                          | (16,257,951)                     | -                    | -                  | -                    |                  | (16,257,951)        |
| <b>Total liability-<br/>related other<br/>changes</b>  | <b>787,351</b>                   | <b>1,786,353</b>     | <b>-</b>           | <b>-</b>             | <b>-</b>         | <b>2,573,704</b>    |
| <b>Total equity-<br/>related other<br/>changes</b>     | <b>-</b>                         | <b>-</b>             | <b>-</b>           | <b>5,183,467</b>     | <b>(639,292)</b> | <b>4,544,175</b>    |
| <b>Balance at 31<br/>December 2020</b>                 | <b>111,590,022</b>               | <b>12,908,749</b>    | <b>43,000,000</b>  | <b>(4,244,020)</b>   | <b>-</b>         | <b>163,254,751</b>  |

**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) WHT on dividend**

BRAC Uganda Bank Limited declared a dividend of Ushs 66 billion to the shareholders (BRAC International Holdings BV). 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 (BRAC International Holdings BV) 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 URA 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) VAT on net asset transfer**

The Company made another request for a private ruling with respect to VAT on transfer of Assets from BRAC Uganda Microfinance Limited to BRAC Uganda Bank Limited, URA advised that the transfer of business from BRAC Uganda Microfinance Limited is a taxable supply and as such should have charged VAT on the transaction in accordance with Section 18 (9) of the VAT Act. However, URA has not issued any tax assessment on this transaction.

According to URA, BRAC Uganda Microfinance was required to register for VAT under section 7 of the Act and account for tax on this transaction since it would not qualify as a transfer of business as a going concern.

BRAC Uganda Bank Limited appealed the ruling by demonstrating to URA the nature of the transaction. In a meeting held on 14 November 2019 to discuss the appeal, URA requested BRAC Uganda Bank Limited to provide evidence from other jurisdictions where similar transactions like the re-organisation of BRAC Uganda Microfinance Limited are exempt from VAT. The treatment in other jurisdictions where similar transactions are exempt from VAT was obtained and submitted to URA for their consideration and the company is now awaiting response from URA's Business Policy Department.

Management believes the final ruling will be made in favour of the bank and as such this has been disclosed as a contingent liability and no provision made in the financial statements.



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**Disclaimer:** Some names and identifying details in the case stories have been changed to protect the privacy of the individuals