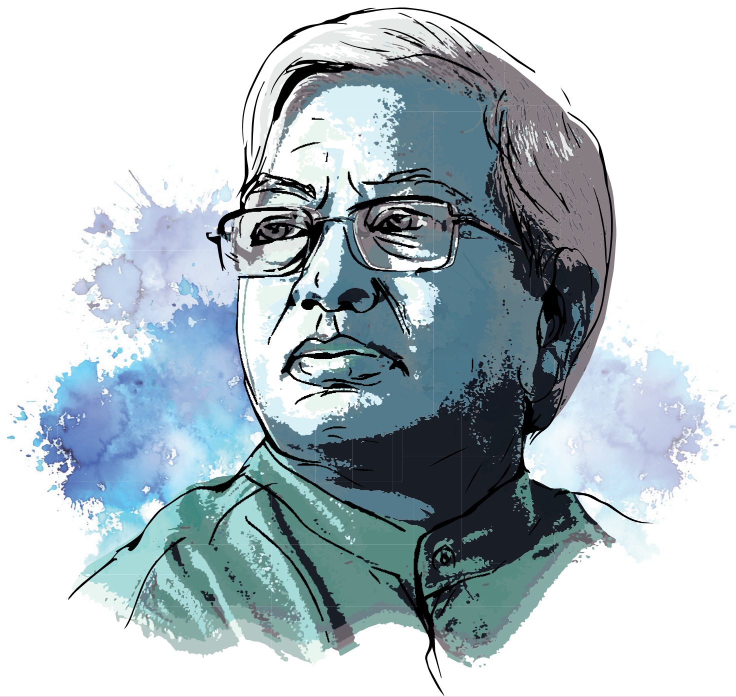
brac | Uganda Bank Ltd

ANNUAL REPORT 2019

BRAC UGANDA BANK LTD



Sir Fazle Hasan Abed KCMG
1936 - 2019

We will not say ‘rest’ in peace.

Thank you, Abed bhai.

Thank you for showing us how meaningful one’s life can be.

Thank you for instilling the courage in us to take on the impossible.

Thank you for showing us how to listen and learn,
to fail and to get up again in the service of others.

Thank you for making us see that no one is ordinary and
to seek potential in everyone.

We will not say ‘rest’ in peace.

The Abed bhai we know would not rest until we build an equal world.

We know you would not want us to lament your loss for long.

You would want us to tirelessly fight poverty and inequality,
like you did the last 47 years.

We promise to rise to that responsibility.

We promise to be worthy of your legacy.

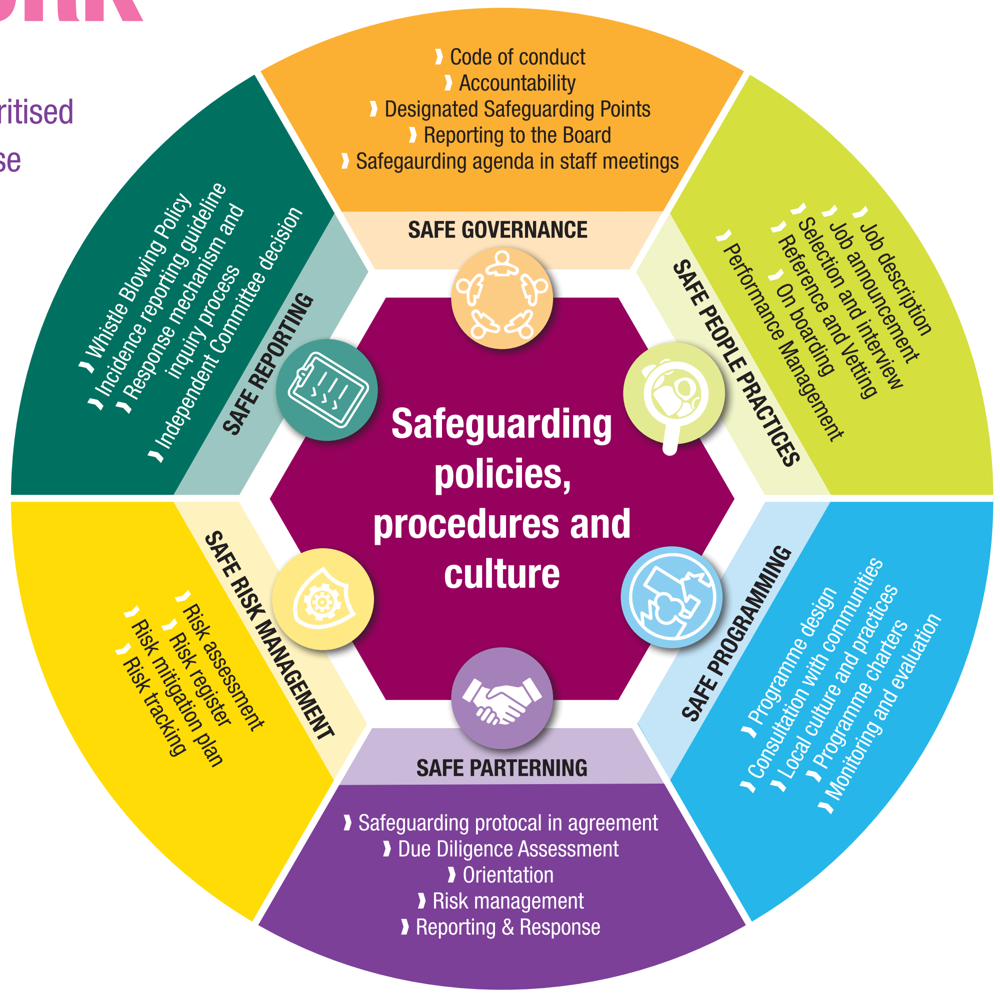
We have transformed.
We are now BRAC Uganda Bank Limited.

For more than a decade BRAC microfinance has enabled people living in rural and low–income communities in Uganda to access finance. As a regulated Credit Institution, we now offer even greater value with a broader range of financial services.

Now you can do more.

BRAC SAFEGUARDING FRAMEWORK

Since its inception, BRAC has prioritised the safety and wellbeing of all those it works with – stakeholder of all programmes, members of staff and volunteers, and partners and donors. From the beginning of 2018, BRAC strengthened its safeguarding compliance, and has committed to ensure that safeguarding measures are incorporated across all levels of the organisation.



BRAC currently operates with six safeguarding standards: safe governance, safe people practices, safe programming, safe partnering, safe risk management and safe reporting. A safeguarding unit has been formed within BRAC Human Resources and Learning Department to provide technical support in strengthening safeguarding at organisational, programmatic and partnership levels.

BRAC has developed a standalone safeguarding policy as well as specialised policies to address sexual harassment, protection of children and adolescents, prevention of workplace bullying and violence, rights of persons with disabilities, and whistleblowing. All members of staff at BRAC are trained on safeguarding through classroom and online sessions. Different programmes and departments are in the process of developing risk mitigation plans to curb safeguarding risks associated with their work.

BRAC's overall strategy to safeguard people is firstly through means of prevention. If that fails, each case or incident violating the policy is addressed through a mechanism that is fair, transparent and objective. Our priority is to take safety measures for the complainant if and when an incident arises.

BRAC has a robust internal investigation process and unit with two separate streams to address safeguarding-related breaches, as well as two independent decision-making committees. A centralised 24/7 call centre has been established to lodge complaints. Additional emphasis is given on awareness and data management related to complaints regarding all forms of harassment and bullying. BRAC's safeguarding unit implements action plans jointly developed with DFID, and in collaboration with all its programmes and departments to build a strong safeguarding culture within the organisation.

CONTENT

MESSAGE FROM THE BOARD CHAIRMAN

TRANSFORMATION TO ACHIEVE TRANSFORMATIVE IMPACT AT SCALE

Overview and Strategy

2019 was a year of profound change and new opportunities for our microfinance operations. After years of preparation and arduous efforts by the team, we were able to transform into a deposit-taking institution and launched BRAC Uganda Bank Ltd in April 2019. But it is important to reflect on why we embarked on this massive change effort.

Rural Ugandans are still 1.7 times more likely to be completely excluded from financial services than their urban counterparts, and less than 1 in 5 Ugandans keep their savings at formal financial institutions. In bridging these gaps and addressing these inequities, social mission-driven microfinance institutions like ours have a critical role to play. In pursuit of our new regulatory status, our aim was to not only provide a broader range of client-centric financial services but to make them available to more women and youth living in rural and low-income communities, who remain largely untouched by mainstream service providers.

As we strive to achieve greater impact in the lives of our clients through this transformation, we spent considerable time in developing and reviewing our five-year strategic business plan (2020-2024) to guide us in the fulfillment of our social mission. The senior management team at BRAC Uganda Bank Ltd have made great strides in strengthening our work along the six defined strategic priority areas, including but not limited to responsible inclusive finance, innovative product development, and digitisation. We will also focus on talent management and strengthening of the management structure to ensure the organisation has the resources and capacity to achieve and sustain its impact goals.

Governance

In compliance with Corporate Governance regulations and laws, we reconstituted the Board of Directors following the transformation. The Directors are committed to the fulfillment of the Bank's social mission and bring on board a wealth of skills and experience from their own spheres of expertise to complement those of the management team. The Board retains full and effective oversight on the Bank and, together with the Management Committee, remains committed to corporate management best practices with a strong emphasis on integrity, transparency, and disclosure.

Clients

We have remained undeterred in our commitment to our target client base: populations at the bottom of the pyramid, particularly women and children, living in rural and hard-to-reach areas. We strive to ensure the highest standards of service for all clients, with affordable, accessible, and inclusive products that are finely tuned to their heterogeneous needs. In 2019, we continued to strengthen social performance and client protection initiatives, in line with the Universal Standards for Social Performance Management (USSPM) and the Client Protection Principles (CPP).

We also conducted our first annual Lean Data survey with 60 Decibels and with support from Global Partnerships to gauge our social impact, as well as measure whether we are consistently reaching our target client base and meeting their needs. The findings have reinforced the vital role BRAC plays in critically underserved communities. Clients reported greater levels of financial resilience and stability after working with BUBL, with a remarkable 82% of clients saying they would rely on savings if they experienced a financial shock, up from 47% before they joined BUBL. Almost all clients reported increases in at least one of the following social outcomes: ability to plan finances, amount spent on children's schooling, amount spent on home improvements, frequency of contributing to family decisions, number and quality of family meals, and ability to access healthcare. We will continue to leverage these insights to do better in the future.

Outlook for 2020

Although the duration and full impact of the COVID-19 pandemic remains uncertain, the Board remains committed to ensuring recovery efforts are well executed by management for the benefit of our clients. To ensure we can continue to provide critical financial services to our clients during future crises, we will reinforce our people agenda -- making sure our staff have the requisite tools, skills, and performance-driven rewards to function in a crisis -- and accelerate implementation of alternative delivery channels and digitisation of some of our services.

All of us on the Board of Directors feel privileged to have been given the opportunity to serve and guide the entity in its inaugural year as a Bank. On behalf of my fellow Directors, I thank our staff for their efforts in realising the incredible achievements thus far, and all our partners, funders, and regulators for the confidence you have shown in us. COVID-19 has made clear how critical our work is and we rely on your continued support in fulfilling our unified social mission. Lastly, my heartfelt gratitude to all our clients who have trusted us and brought us to where we are today.

Given our customer-focused values, our strong track record of delivery, the dedication and commitment of our employees, and our position as the largest financial institution serving the bottom of the pyramid in Uganda, we have all the components to succeed in assisting our clients in their sustainable recovery, building their resilience for the future, and ultimately achieving transformative impact at scale.

Hon. (rtd.) Justice Augustus Kania
Chairman, Board of Directors
BRAC Uganda Bank Ltd

LETTER FROM THE MANAGING DIRECTOR

With profound honour and exceeding humility, I take this opportunity on behalf of the BRAC Uganda Bank Ltd (BUBL) family to share with you our annual report for 2019.

The year 2019 marked a significant milestone: we transformed into a bank in April 2019 following a 13-year long journey as one of the largest microfinance institutions in Uganda. Becoming a bank however is only a means to an end -- allowing us to provide a greater range of financial tools to enable underserved populations at the bottom of the pyramid to unlock their potential and strengthen their financial resilience. At year end, we were serving over 216,000 active borrowers and over 149,000 depositors through innovative, client-centric products. Most of these clients were previously excluded from mainstream financial services. Despite the transformation, we remain committed to our core client base: 96% of our clients are women, 21% are youth, and 86% are rural.

During the run-up to the launch and the period that immediately followed, we actively engaged in customer sensitisation about the new products and services we would be offering as a bank. We have continued to research and develop financial products to meet the diverse and dynamic needs, behaviours, and preferences of our clients at the bottom of the pyramid. One such example is the Wise Save account, designed to provide an avenue through which financially excluded, low-income earners, especially women, can save and thereby build their financial resilience.

We also developed a digital financial services strategy to guide us in providing client-centric digital solutions to ensure even greater convenience and affordability for clients, particularly for those living in hard-to-reach areas. Going live with a robust Core Banking System (CBS), Orbit-R, enabled us to provide an interconnected network of 32 regulated branches and 131 satellite offices to effectively serve our customers across the country, with 97% up-time even in remote, rural locations. Alongside these new digital initiatives, we remained committed to ensuring high levels of engagement with clients through our cadre of 2,055 client-facing staff.

As we made adjustments to our operations, we focused on building our staff capacity to serve our customers in the new mode of operations as a bank. This was aimed at making staff appreciate not only the risks, regulatory and compliance requirements, and obligations that come with this exciting new journey, but also ease their burden in adapting to the new modality and ensure that they can continue to deliver high-quality services. We also undertook significant investments in our risk management framework by establishing governance structures, and institutionalising internal policies and procedures.

Despite this year of tremendous change, we were able to balance transformational activities for the receipt of the license alongside business as usual, leading to a growth in our total assets by 6.5%. While many transforming institutions make losses in the initial years of regulated operations, we remained profitable in our first year of regulation. By close of 2019, we had a loan book in excess of UGX 188 billion and a deposit balance of UGX 53 billion. BUBL also ranked second out of nine microfinance institutions in Uganda, topping the league with the largest customer base.

Looking ahead in 2020

With the COVID-19 pandemic, populations at the bottom of the pyramid have had their lives and livelihoods upended by the crisis. Our role is more critical now than ever before as we assist these populations in ensuring their sustainable economic recovery and strengthening their financial resilience. The health and safety of our staff and our clients has been paramount throughout our response and recovery interventions, and we have leveraged insights from two separate client surveys to develop operational resumption modalities that best meet clients' needs and preferences.

As our clients begin to recover from the impact of the pandemic and rebuild their lives, we will continue to enable them to "do more." We will engage in innovative, client-centric product development to meet the fast-changing needs of clients, and leverage technology in this new era of social distancing to increase convenience for clients, while simultaneously maintaining and ensuring high levels of engagement with clients. To ensure the organisation is able to adapt to the challenges of this new era, we will further drive staff and leadership capacity development; strengthen cash flow and liquidity management, coupled with strong partnership management for grants and softer loan terms; and continue expansion and growth to the extent possible within the risk appetite.

Our achievements this year would not have been possible without the tireless efforts and unwavering commitment of over 2,100 staff, of whom 83% are women. We are also grateful to the contribution of our partners and funders: MasterCard Foundation, aBi Trust, CitiBank, FMO, Triodos, Global Partnerships, KIVA, Soluti Finance, and others. Support and guidance from the Board of Directors, our shareholders, the larger BRAC International network, and the Bank of Uganda have also been a key factor behind our strong results in 2019.

But most of all, we are indebted to our clients, whose incredible spirit and resilience continue to inspire, invigorate, and guide our work.

Building on our strong bonds with clients, our large footprint, and the commitment and dedication of our staff, BUBL will continue to expand access to responsible, inclusive, and innovative financial solutions that enable people to have greater control over their futures. As our social mission and values continue to drive our journey, we look forward to working together to drive sustainable, impactful financial inclusion at scale.

Jimmy Onesmus Adiga
Managing Director
BRAC Uganda Bank Ltd

BRAC UGANDA BANK LTD GOVERNANCE AND MANAGEMENT

Board of Directors

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

Management Committee

Jimmy Onesmus Adiga	Managing Director	Chairperson
Namuddu Rose	Chief Finance Officer	Member
Nambale W John	Head of Legal	Secretary
Bagonza Tracy	Compliance Manager	Member
Mugabe Kusiima Robert	Head of Banking Operations	Member
Alemi William Kenyi	Head of Business Dev't & Strategy	Member
Arthur Byabishaija Nyakoojo	Head of ICT	Member
Emmanuel Adrapi	Ag. Head of Risk	Member
Nassazi Eva	Corporate Strategy Manager	Member
Muyama Claire Nataka	Head of HR & Training	Member
Edward Mutyaba	Ag. Chief Operations Officer	Member
Malik Asif Russd	Head of Credit	Member
Innocent Kakande Bitoogo	Head of Internal Audit	Member

OUR MISSION

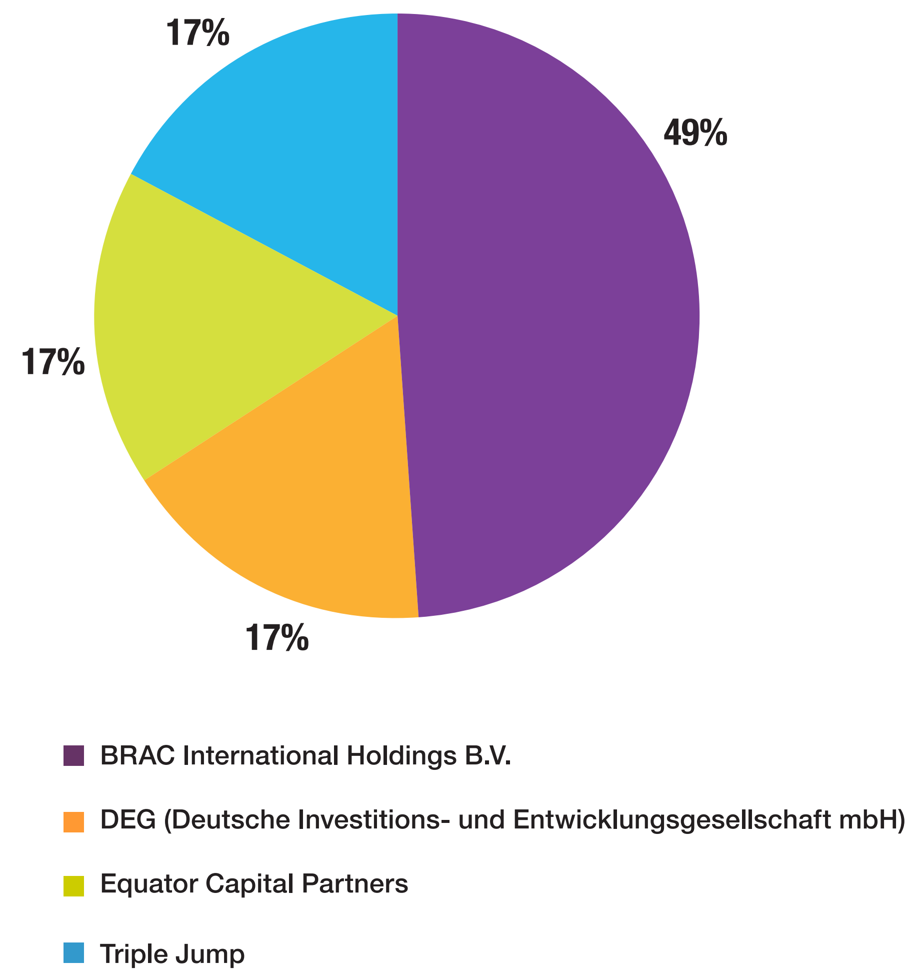
To provide a range of financial services responsibly to people at the bottom of the pyramid in Uganda.

We particularly focus on women living in poverty in rural and hard to reach areas to create self-employment opportunities, build financial resilience, and harness women's entrepreneurial spirit by empowering them economically.

OWNERSHIP STRUCTURE

BRAC International Holdings B.V. was the sole owner until BRAC Uganda Bank Ltd received its licence to operate as a Tier 2 Credit institution.

The current ownership structure is provided below:



OUR PARTNERS

41% of adults in Uganda do not have access to financial services and almost half of all women in the country do not have an account with a formal financial organisation. Financial inclusion is largely dominated by the use of mobile money, which provides only a limited range of financial services. Uganda's saving culture also ranks lowest in the East African region, with only 16% of the adult population keeping their savings at formal deposit-taking institutions.

ABOUT US

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.

Focusing particularly on women and youth, our mission is to empower people living in rural, urban and hard-to-reach areas with access to financial services. We create self-employment opportunities, build financial resilience, and promote women's entrepreneurial spirit by empowering them economically. According to a 2019 baseline impact assessment, clients noted improvements in their financial resilience in emergencies, and most of our clients stated that their quality of life has improved since engaging with BRAC. Across all endeavours, BUBL abides by the Universal Standards for Social Performance Management and the Client Protection Principles.

OUR PRODUCTS

BUBL currently has two major loan products: a collateral-free, group-based microloan provided exclusively to women, and a small enterprise loan. We also offer credit for adolescent girls from the ELA programme, and community health promoters of the health programme.

Since our transformation in April 2019, we have also introduced three 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).

MOVING FORWARD

BUBL has developed a business plan that aims to increase its impact at scale. For the next five years to 2024, the institution will allocate resources and build capacity to register success in these six priority areas: responsible inclusive finance, innovative product development, digitization of field operations, talent management, management development and decision-making and funding.

We will prioritise activities aimed at achieving our mission of empowering people at the bottom of the pyramid with access to financial services, especially women living in poverty in rural and peri-urban areas. Informed by learning from implementation, we will refine existing products and develop new, innovative products for critically underserved segments, such as smallholder farmers and refugees.

We will maintain our focus on social performance management initiatives, and explore digitisation of field operations to track whether we are effectively reaching people living in poverty and achieving the desired social outcomes for our clients. We will also lay the groundwork for the use of alternative delivery channels, such as agency banking, to facilitate access to financial services, particularly for clients living in hard-to-reach areas.

We will strengthen leadership and develop strong governance culture around the strategic areas. As part of our talent management initiatives, we will allocate resources for training and skills development for staff and will attract young professionals to develop the next generation of leaders.

OPERATIONAL HIGHLIGHTS

162 locations (**31** branches, **131** satellites) covering **84** districts

Over **200,000** borrowers of whom 96% are women, **21%** are youth, and **86%** are located in rural areas

UGX 423.28 billion (USD 115.4 million) disbursed as loans and UGX 18.5 billion (USD 5.6 million) mobilised in savings

2019 BASELINE IMPACT ASSESSMENT HIGHLIGHTS

96% of clients reported increases in income

88% of clients reported improved ability to better plan their finances

82% of clients reported using savings to pay for an emergency expense after working with BUBL, compared with only 47% before

71% of clients reported contributing to family decisions more frequently

86% of clients reported spending more on home improvements, and **86%** spend more on children's education

THE PIONEER

Naigaga Ruth Wamuro is the first client of BRAC Uganda Microfinance. She took her first loan in 2006 when the first satellite branch was launched in the Eastern district of Iganga.

"I remember that time when we heard of people who had come from Kampala. They were from an organisation called BRAC that was giving microloans to women", said Ruth. "We received lessons in financial literacy for 4 months before receiving our loans".

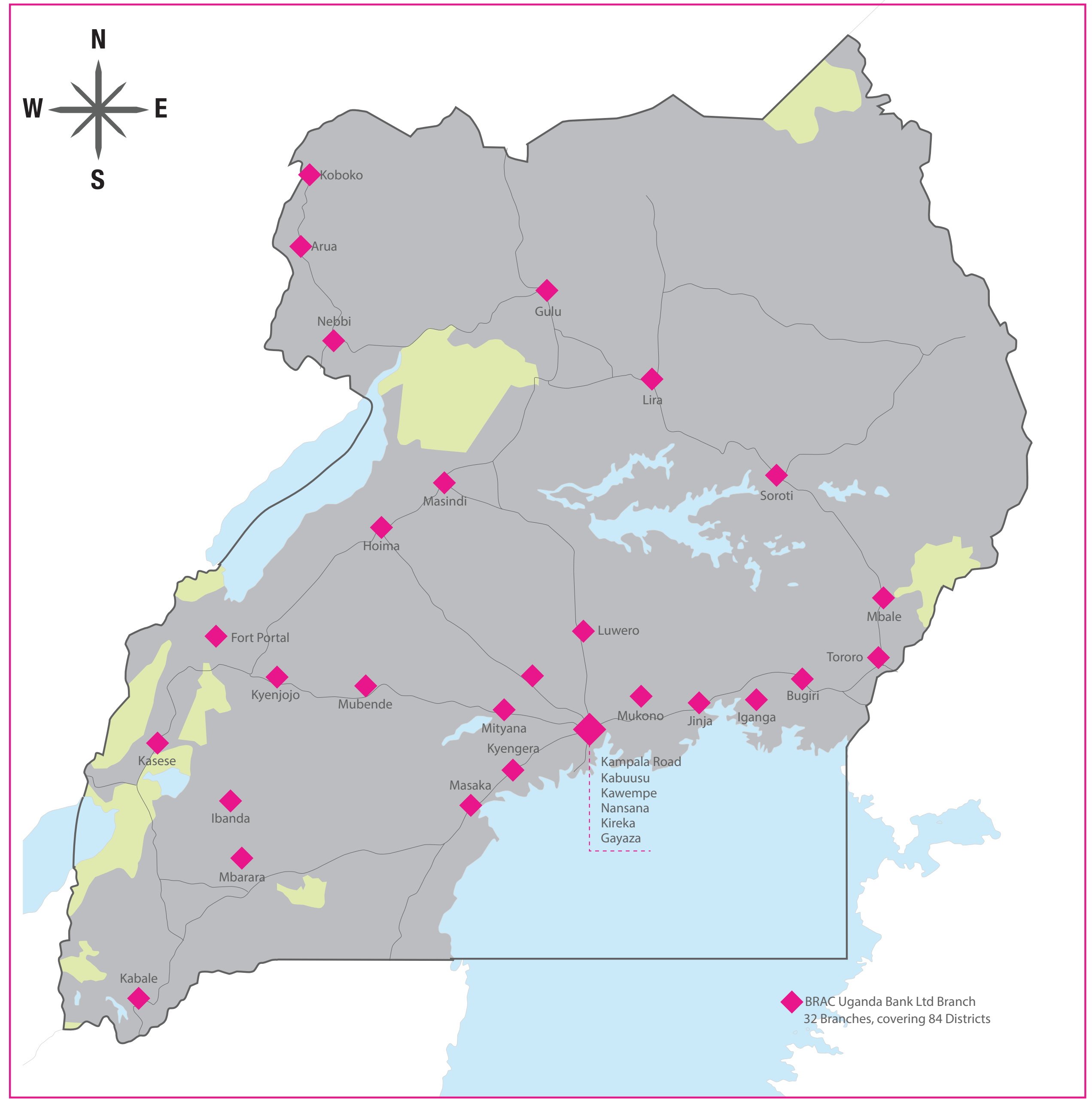
Ruth discussed with her husband and invested the money to build a canteen on the local university campus. "I also took some money from my husband but he suddenly fell ill before I could finish the building", said Ruth. Ruth stepped up to take the responsibility of the family. She took another loan to complete the canteen and invested the profits to build housing rentals. Over the years, Ruth has taken multiple loans to buy more land and expand her rental facilities.

Ruth was awarded the "Citi Outstanding Micro-entrepreneurship Award" in 2010, making her the first BRAC Microfinance client to win this prestigious award in Uganda. "It was a proud moment for me", said Ruth. "I was invited to Serena Hotel in Kampala where there was a function celebrating entrepreneurs from all over Uganda".

Ruth went from being a stay-at-home mother of eight children to a businesswoman by mobilising other women from her community. She is the chairperson of her microfinance group who meets everyone in her courtyard. The women in her community look up to her as an inspiration and for business advice.

"I appreciate BRAC for helping me start my business. I am now a self-sufficient independent woman. The women in my microfinance group and I made it out of poverty. We are not rich. We do not drive cars, but we are self-sustaining. Money is not a big issue", said a confident Ruth.

OUR PRESENCE IN UGANDA



We have been here for more than a decade, providing access to finance for people living in rural and low-income communities of Uganda. We have transformed into a tier 2 bank. We are BRAC Uganda Bank Ltd. Now you can do more

BRAC Uganda Bank Ltd
P.O. Box 6582 Kampala
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Tel (General): 0200 900 720
Toll Free: 0800 399 999
0800 399 990

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bracugandabankltd@brac.net

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 play-based early learning model. Our Play Labs are safe play spaces, providing cost effective local learning materials to children in marginalised communities.

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.

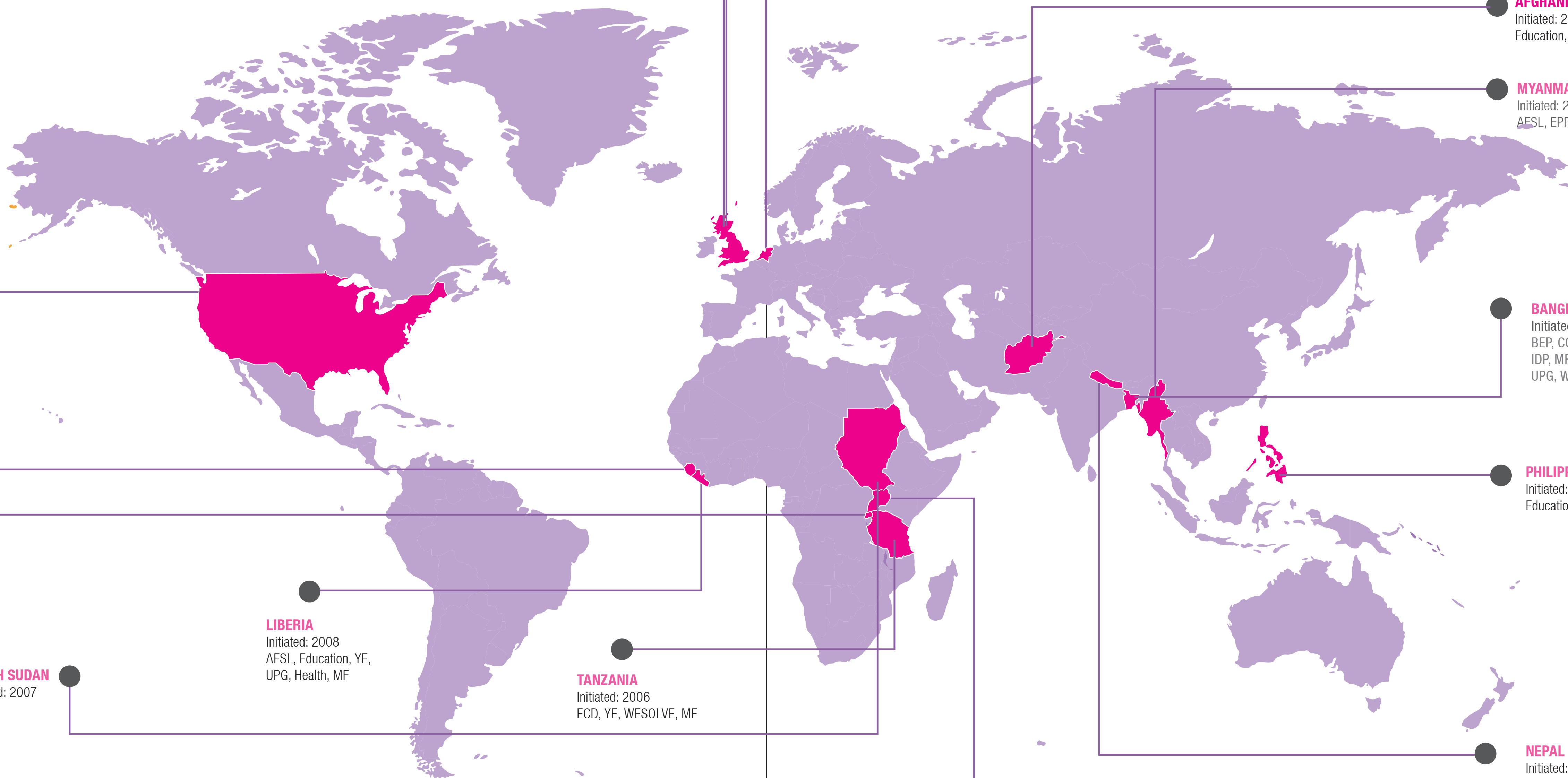
Through our **Youth Empowerment programme** we provide life-saving and life-transforming services to adolescent girls to prevent unintended pregnancies, improve their awareness on harmful practices, and empower them financially. We create safe spaces by establishing clubhouses for girls aged 10-21, especially 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.

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.

With the help of **Microfinance**, 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 self-employment opportunities, build financial resilience, and harness women's entrepreneurial spirit by empowering them economically.

BRAC ACROSS THE WORLD



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

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

NETHERLANDS
Initiated: 2009
Stichting BRAC International registered as a foundation

AFGHANISTAN
Initiated: 2002
Education, Health, CCAP, CDP

MYANMAR
Initiated: 2013
AFSL, EPRP, MF

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

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

PHILIPPINES
Initiated: 2012
Education, UPG

RWANDA
Initiated: 2018
Microfinance

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

SOUTH SUDAN
Initiated: 2007
AFSL

TANZANIA
Initiated: 2006
ECD, YE, WESOLVE, MF

NEPAL
Initiated: 2015
YE, SDP, Health, AFSL

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

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 Epreparedness 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

FINANCIALS

OPERATIONAL AND FINANCIAL HIGHLIGHTS – MICROFINANCE

NET INCOME

BRAC Uganda Bank Ltd. completed 2019 by registering pretax profit of USD 4,244,873 compared to USD 6,560,626 in 2018. The reduction was mainly attributed to the increase in operating expense due to transformation coupled with the slow growth in the the first half of 2019.

OPERATING EXPENSES

Total operating expenses for the year 2019 was USD 17,279,938 as against USD 13,878,712 in 2018 showing an increase of 25%. The increment is due to additional expenses for the transformation to a regulated credit institution (tier II) financial insititution.

PROVISION FOR IMPAIRMENT LOSSES

In 2019, amount charged for impairment on loans was USD 352,946 compared to USD 914,877 in 2018. Portfolio at Risk (PAR>30) is 3.45% this year against 3.20% in 2018. The company followed most stringent provisioning policy to be inline with Uganda Central Bank guidelines for regulated tier-II entity.

FINANCIAL POSITION

In 2019, the company's total assets grew by 8% to USD 70,738,223 compared to the previous year's total assets of USD 65,508,016 further consolidating its position in the market. Loans and advances to customers increased by 8.5% and is now 72.6% of total assets. in 2019, the company's Savings deposits amounted to USD 5,061,309. Security deposits increased by 9% and net equity increased to USD 18,280,630 from USD 15,821,455 in 2018.

CONTRIBUTION TO GOVERNMENT EXCHEQUER (IN USD)

BRAC Uganda Bank Ltd. regularly contributes government exchequer through providing tax on its income and withholdings and deposition tax from it's employees and suppliers and contributing to The National Social Security Fund (NSSF). Total contribution to government exchequer for the last two years as follows:

Particular	2019	2018
Income tax	1,790,114	1,948,918
Social Insurance	732,085	582,076

VALUE ADDED STATEMENTS (IN USD)

A value added statement provides a detail account of total value addition and the distribution of value created by the organization. BRAC Uganda Bank Ltd contributes positively to overall economic development by empowering the poor people (especially females) through micro-credit and employees through creating opportunities for the Ugandan youth population by providing them with a dynamic working environment and capacity building through on the job and international training. BRAC also assists the local regulatory authorities by paying taxes regularly.

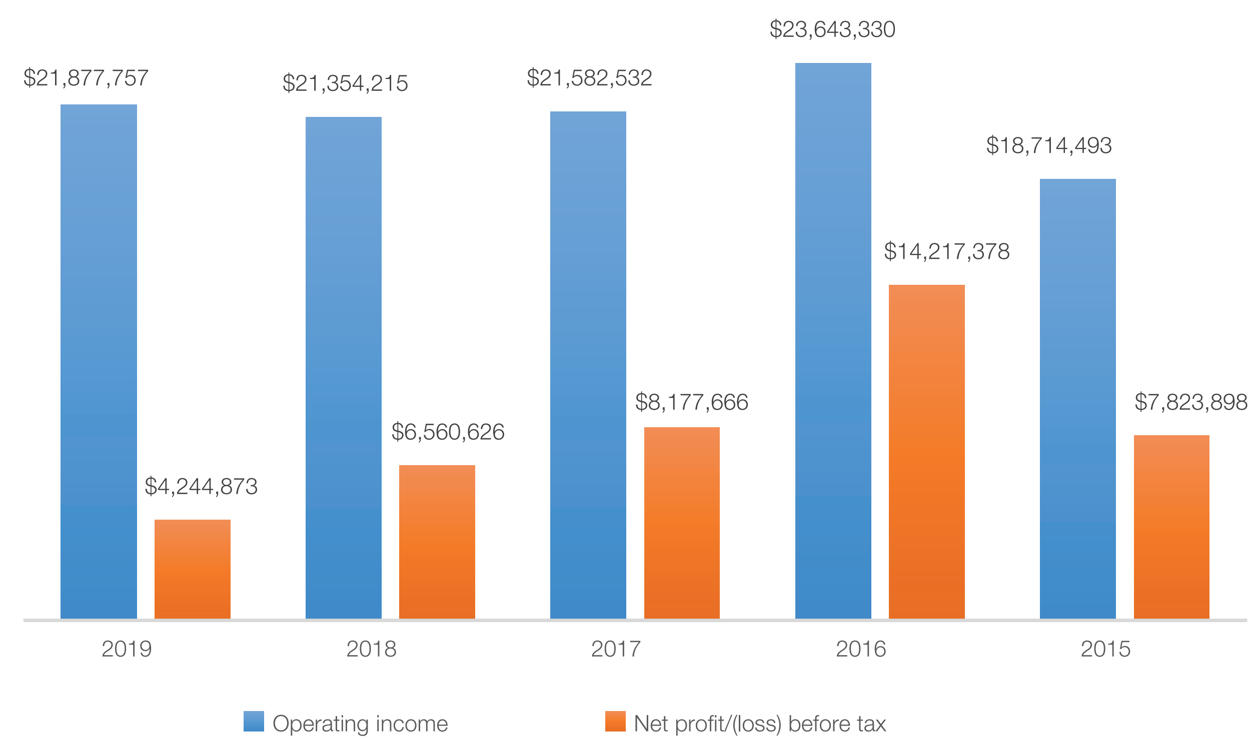
Value Added:	2019		2018	
	Amount	%	Amount	%
Service charge on loans	24,685,445	125%	22,926,002	140%
Membership fees	425,146	2%	348,330	2%
Other income	980,408	5%	1,106,773	7%
Grant income	221,855	1%	14,431	0%
Forex gain/(loss)	96,902	0%	(544,213)	-3%
Other operating exp.	(6,257,308)	-32%	(6,581,547)	-40%
Expected credit loss	(352,946)	-2%	(914,877)	-6%
Total Value Added	19,799,502	100%	16,354,899	100%

Value Distributed:	2019		2018	
	Amount	%	Amount	%
Employees				
Salary and allowances	9,452,047	48%	7,016,619	43%
Creditors				
Interest Expense	4,531,999	23%	3,147,032	19%
Local Authorities				
Income tax	1,790,115	9%	1,948,918	12%
Growth				
Retained Income	2,454,758	12%	3,961,784	24%
Depreciation	1,570,583	8%	280,546	2%
Total Value Distributed	19,799,502	100%	16,354,899	100%

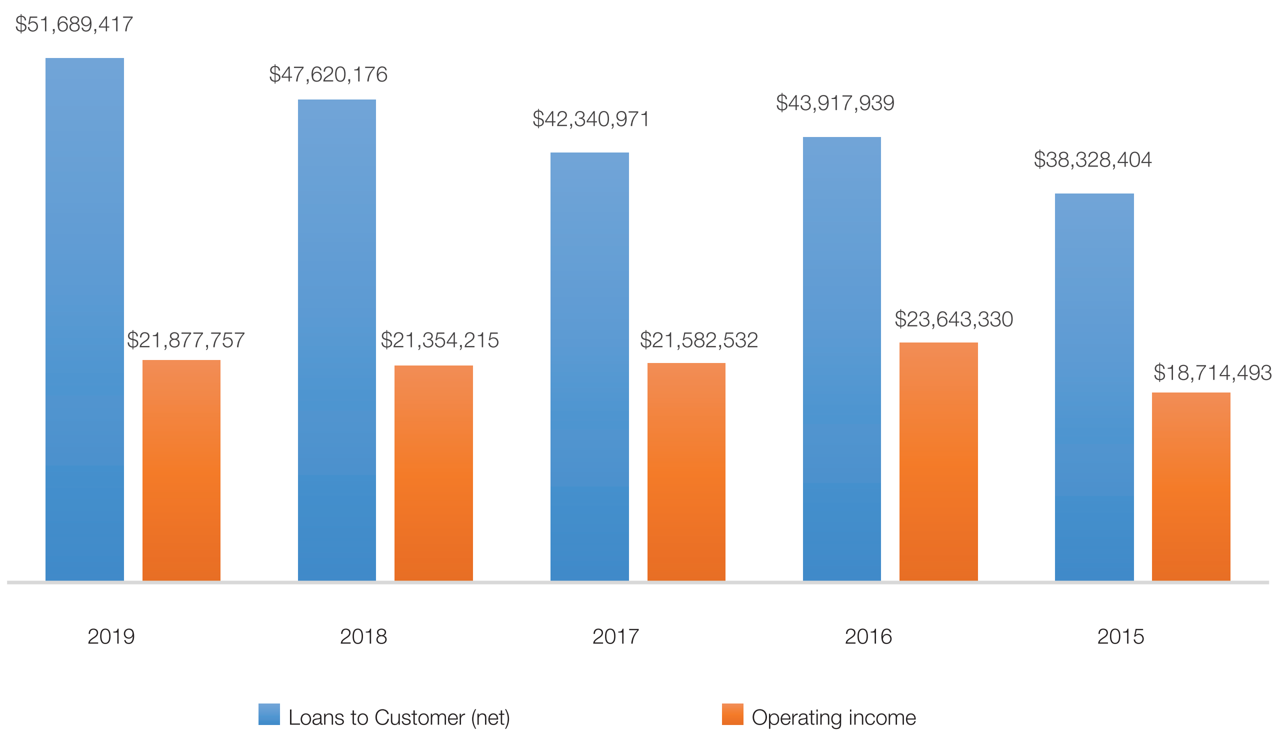
PERFORMANCE REVIEW (IN USD)

Particular	2019	2018	2017	2016	2015
Income Statement					
Operating Income	21,877,757	21,354,215	21,582,532	23,643,330	18,714,493
Net profit/(loss) before tax	4,244,873	6,560,626	8,177,666	14,217,378	7,823,898
Financial Position					
Total Asset	70,738,223	65,508,016	55,677,033	49,285,449	42,836,209
Loans to Customer (net)	51,689,417	47,620,176	42,340,971	43,917,939	38,328,404
Cash at Bank	5,981,802	3,988,967	2,167,803	1,650,719	1,755,855
Returns and Ratio					
Return on Asset	6%	10%	15%	29%	18%
Cost to Income	79%	80%	75%	75%	71%
Operational Statistics					
Total Borrowers	216,787	218,598	194,616	213,709	194,732
PAR>30	3.45%	3.20%	2.73%	2.23%	0.56%

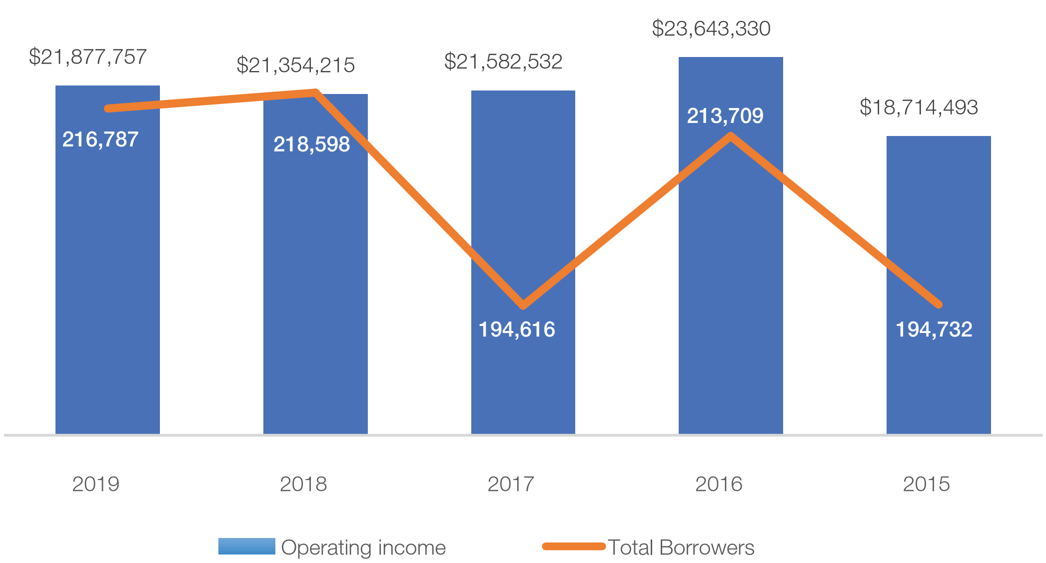
OPERATING INCOME VS PROFIT BEFORE TAX (IN USD)



PORTFOLIO VS OPERATING INCOME (IN USD)



OPERATING INCOME VS BORROWER (IN USD)



BRAC UGANDA BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

DIRECTORS

Hon (Rtd) Mr. Justice Augustus Kania**	-	Chairperson
Mr. David Tumwesigye Baguma**	-	Member
Ms. Margaret Mary Musana Akora**	-	Member
Mr. Shameran Abed*	-	Member
Ms. Hasina Akhter *	-	Member
Ms. Orsolya Farkas***	-	Member (Appointed November 2019)
Mr. Adiga Onesmus Jimmy **	-	Managing Director/CEO
Mr. Emmanuel Emaasit**	-	Executive Director/COO (Resigned November 2019)

*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

BRAC UGANDA BANK LIMITED
CORPORATE INFORMATION

BANKERS

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

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

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

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

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

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

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

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

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

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 2019, 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.

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.

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 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 1 January, 2010 as BRAC Uganda Microfinance Limited (by guarantee).

(B) VISION

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

(C) MISSION

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

(D) OUR VALUES

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

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

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

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

(E) PRINCIPAL ACTIVITIES

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

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

BRAC UGANDA BANK LIMITED
DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2019

(F) FINANCIAL PERFORMANCE

The Bank's performance during the period ended 31st December 2019 is as follows:

- Interest income on loans increased by Ushs 9.6 billion compared to the same period of 2018 from Ushs 81.8 billion as at 31 December 2018 to Ushs 91.4 billion as at 31 December 2019.
- Net loans and advances to customers increased by 7% from Ushs 176.9 billion at 31 December 2018 to Ushs 189.4 billion at 31 December 2019.
- Loan disbursements increased by 8% from Ushs 391.9 billion in the year ended 31 December 2018 to Ushs 423 billion in the year ended 31 December 2019.
- Net profits after tax reduced by 47% from Ushs 17.2 billion for the year ended 31 December 2018 to Ushs 9.1 billion for the year ended 31 December 2019. The reduction was mainly attributed to the increase in operating expenses due to transformation coupled with the slow growth in the first half of 2019.
- Total assets increased by 6.5% from Ushs 243.4 billion at 31 December 2018 to Ushs 259 billion at 31 December 2019 and acquisition of property plant and equipment and recognition of the right of use asset.
- Borrowings increased from Ushs 80.3 billion as at 31 December 2018 to Ushs 92.8 billion as at 31 December 2019. The increase was mainly due to receipts from Bank of Africa and aBi Finance of Ushs. 15 billion and Ushs. 10 billion respectively.

(G) RESULTS AND DIVIDENDS

The Bank's profit for the year ended 31 December 2019 of Ushs 9.1 billion (2018: Ushs 17.2 billion) has been transferred to retained earnings. The directors propose dividends for the year ended 31 December 2019 of Ushs 4.5 billion (2018: Ushs 66.2 billion)

(H) CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital based on requirements contained in the Financial Institutions Act. As at 31 December 2019 the Bank's regulatory ratios were as follows:

	2019	2018
	Ushs'000	Ushs'000
Tier 1 Capital	56,975,877	51,691,575
Tier 2 Capital	1,837,202	1,781,306
Total tier 1 + tier 2 capital	**58,813,079**	**53,472,881**
Total risk weighted assets	**230,627,565**	205,041,412
Tier 1 capital ratio	**24.70%**	**25.21%**
Tier 2 capital ratio	**25.50%**	**26.08%**

Further information about capital adequacy is disclosed in Note 31 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 24.

(J) DIRECTORS BENEFITS

During the year the directors received Ushs 140million as sitting allowances (2018: Nil).

(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.

In 2019 the Board of Directors had eight 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	3
Independent Non-Executive Directors	3

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 2019.

Meeting	Composition	Meetings held
Full Board	8	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	Nil

(L) RISK MANAGEMENT

The risk management framework of the Bank is disclosed in note 31 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:

- Finance and Accounting
- Credit
- Internal Audit
- Compliance

- Banking Operations
- Information and Communication Technology
- Human Resources and Training
- Business Development and Strategy
- Procurement, Logistics and Administration
- Legal and Company Secretarial
- Risk Management

(N) RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in note 16 to the financial statements.

(O) FUTURE DEVELOPMENT PLANS

- Development and implementation of digital finance strategy and continue enhancing technology to improve efficiency in our operations. This will be achieved through scaling up the mobile banking platform and agency banking
- Focus on deposit mobilisation to grow deposits as source of cheaper funding
- Continue to enrol clients onto the Credit Reference Bureau platform for improved credit risk assessment.
- Carry out business process reengineering to develop leaner and simple processes to improve turnaround while ensuring regulatory compliance.

(P) KEY ACHIEVEMENTS IN 2019 TO DATE

- The Bank was officially licensed to operate as a Tier 2 Financial Institution on 7 March 2019. Under this tier, the Bank is permitted to take deposits from the public held on Savings accounts and hence the Bank started accepting deposits from the public in June 2019 and over 130,000 voluntary Savings accounts had been opened over the period.
- New shareholders were identified to take up 51% shares in the new company and the process of share transfer was concluded during the year.

(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 2019, the Bank had 2,140 staff (2018: 1,928 staff). The female staff were 84% (85.3% in 2018).

(S) EMPLOYEES' WELFARE

Management/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 including; delinquency management and credit appraisal, customer care and Core Banking System training.

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

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

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

(T) AUDITOR
The auditor, KPMG, being eligible for reappointment has expressed willingness to continue in office in accordance with the terms of Section 167(2) of the Companies Act of Uganda and Section 67 of the Financial Institutions Act, 2004 (as amended 2016).

(U) APPROVAL OF THE FINANCIAL STATEMENTS
The financial statements were approved by the directors at a meeting held on 17 March 2020.

By order of the Board

Signed: ……………………………………..   Date: 10 April 2020

SECRETARY

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 100 to 158, which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and 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) and the Companies' Act 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 in the year ahead.

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 (IFRS), Companies Act of Uganda and Financial Institutions Act 2004 (as amended 2016).

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the board of directors on 17 March 2020.

……………………………………..   ……………………………….
Chairperson, Board of Directors   Director

……………………………………..   ……………………………….
Managing Director   Company Secretary

Date: 10 April 2020

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

Telephone +256 414 340315/6
Fax +256 414 340318
Email info@kpmg.co.ug
Website www.kpmg.com/eastafrica

REPORT OF THE INDEPENDENT AUDITORS 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 on pages 100 to 158, which comprise the statement of financial position as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Companies Act of Uganda and the Financial Institutions Act 2004 (as amended 2016).

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' *Code of Ethics for Professional Accountants (IESBA Code),* together with the ethical requirements that are relevant to our audit of the financial statements in Uganda and, we have fulfilled our 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.

Key audit matter	How the matter was addressed in our audit
Expected credit loss loans and advances to customers **Refer to notes accounting policy 3(p), Note 14 and 31(c) (Credit risk) to the financial statements**	
The Bank has recognised Expected Credit Losses ("ECL") on financial instruments which involves significant judgement and estimates. ECL on loans and advances to customers is considered a key audit matter because the directors make significant judgments over both timing of recognition of impairment and the estimation of the size of any such impairment. During the year ended 31 December 2019, the Bank's Expected credit loss provisions was Ushs 4,277 million. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's ECL calculation are: Model estimations - inherently judgemental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD"), and exposures at default ("EAD").The PD models used in the portfolios are the key drivers of the Bank's ECL results and are therefore the most significant judgemental aspect of the Bank's ECL modelling approach.	Our audit procedures in this area included, among others: — Performing end to end process walkthroughs to identify the key systems applications and controls used in the ECL processes. As applicable, testing the general IT and applications controls over key systems used in the ECL process. — Involving our own internal financial risk modelling specialists in evaluating the appropriateness of the Bank's ECL methodologies (including the SICR criteria used) and assessing the appropriateness of the Bank's methodology for determining the economic scenarios. — Assessing the probability of default, loss given default and exposure at default assumptions by evaluating the reasonableness of the model predictions by comparing them against actual results.
Economic scenarios - IFRS 9 requires the Bank to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them. Significant Increase in Credit Risk ('SICR'); the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12-month or lifetime provision is recorded. Management raises qualitative adjustments to the model driven ECL results to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts.	— Obtaining a sample and evaluating key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts, weights and PD assumptions applied; key aspects of the Bank's significant increase in credit risk determinations. — Assessing model predictions against actual results and considering the size and complexity of management overlays, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample back to source data. — Evaluating the reasonableness of management's qualitative adjustments to the weighting of the outcomes (economic scenarios) in the ECL model based on macroeconomic data and historical trends — Assessing the adequacy of disclosures in the financial statements especially whether the disclosures appropriately disclose the key assumptions and judgements used in determining the expected credit losses.

Other information

The directors are responsible for the Other Information. The Other Information comprises the *Corporate Information, the Directors' Report, and the Statement of Directors' Responsibilities*, 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.

Responsibilities of directors for the Financial Statements

As stated on Page 7, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies Act of Uganda, and the Financial Institutions Act 2004 (as amended 2016) 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 has no realistic alternative but to do so. The directors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and 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 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.
- 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 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- P0365.

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

Date: 30 April 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 Ushs '000	2018 Ushs '000
Interest income on loans and advances	4	91,393,907	85,598,813
Other interest income	5	3,629,803	4,132,357
Interest expense on borrowings	6(a)	(13,287,312)	(10,588,104)
Other finance costs on borrowings	6(b)	(3,491,686)	(1,161,968)
Net Income from service charge		**78,244,712**	**77,981,098**
Membership fees and other charges	7	1,574,142	1,300,559
Net finance income	8	358,765	394,692
Grant income	26.1/3	821,381	53,881
Total operating income		**80,999,000**	**79,730,230**
Expected credit loss on financial assets	15	(1,306,726)	(3,415,875)
Operating income after impairment charges		**79,692,274**	**76,314,355**
Staff costs	9	(34,994,691)	(26,197,966)
Other operating expenses	10	(23,166,681)	(24,573,504)
Amortisation of software	20	(577,782)	-
Depreciation of right of use asset	21(i)	(1,828,850)	-
Depreciation of property and equipment	18	(3,408,307)	(1,047,474)
Profit before tax		**15,715,963**	**24,495,411**
Income tax expense	11.1	(6,627,612)	(7,276,668)
Net profit for the year		**9,088,351**	**17,218,743**
Other comprehensive income		**-**	**-**
Total comprehensive income		**9,088,351**	**17,218,743**

The notes set out on pages 39 to 93 form an integral part of these financial statements.

BRAC UGANDA BANK LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Notes	2019 Ushs '000	2018 Ushs '000
ASSETS			
Cash and balances with the central bank	12	1,880,383	5,982
Deposits and balances due from banks	13	30,114,454	41,109,396
Loans and advances to customers	14	187,930,835	176,920,858
Other assets	17	1,963,788	2,806,691
Deferred tax asset	11(2)	-	1,201,022
Tax receivable		-	948,826
Related party receivable	16(1)	2,358,443	-
Property and equipment	18	17,674,217	12,337,697
Right of use of asset	21(i)	11,755,695	-
Work in progress	19	110,335	8,048,185
Intangible assets	20	5,482,294	-
Total assets		**259,270,443**	**243,378,656**
LIABILITIES AND EQUITY			
Liabilities			
Loan security fund	22	34,460,912	32,003,770
Deposits from customers	23	18,550,762	-
Related party payables	16(2)	24,985,444	68,121,215
Borrowings	24	92,751,968	80,292,700
Other liabilities	25	6,674,395	3,519,887
Donor funds	26	406,548	660,422
Lease liability	21(v)	11,911,481	-
Deferred tax liability	11(2)	1,785,721	-
Tax payable	11(3)	740,866	-
Total liabilities		**192,268,097**	**184,597,994**
Equity			
Share capital	27	43,000,000	43,000,000
Retained earnings		18,818,879	15,780,662
Regulatory credit risk reserve	34	639,292	-
Proposed dividends		4,544,175	-
Total Equity		**67,002,346**	**58,780,662**
Total liabilities and Equity		**259,270,443**	**243,378,656**

The financial statements on pages 35 to 93 were approved and authorized for issue by the board of directors on 17 March 2020 and were signed on its behalf by:

Managing Director

Company Secretary

Chairperson, Board of Directors

Director

The notes set out on pages 39 to 93 form an integral part of these financial statements.

BRAC UGANDA BANK LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital	Donor Funds	Retained Earnings	BRAC Contribution	Proposed Dividends	Regulatory credit risk reserve	Total equity
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs'000	Ushs'000	Ushs'000
At 1 January 2018	**-**	**4,490,123**	**103,839,188**	**835,000**	**-**	**-**	**109,164,311**
Adoption of IFRS 9 net of tax	-	-	(1,438,081)	-	-	-	(1,438,081)
Restated balance at 1 January 2018	**-**	**4,490,123**	**102,401,107**	**835,000**	**-**	**-**	**107,726,230**
Transfers to share capital	-	(4,490,123)	(37,674,877)	(835,000)	-	-	(43,000,000)
Profit for the year	-		17,218,743		-	-	17,218,743
Transactions with owners							
Issue of share capital	43,000,000	-	-	-	-	-	43,000,000
Dividends declared	-	-	(66,164,311)	-			(66,164,311)
At 31 December 2018	**43,000,000**	**-**	**15,780,662**	**-**	**-**	**-**	**58,780,662**
At 1 January 2019	**43,000,000**	**-**	**15,780,662**	**-**	**-**	**-**	**58,780,662**
Transfers to share capital	-	-	-	-	-	-	**-**
IFRS 16 adjustment	-	-	(704,638)	-	-	-	**(704,638)**
Impact of deferred tax on assets	-	-	(162,029)	-	-	-	**(162,029)**
Donations received during the year	-	-	-	-	-	-	**-**
Profit for the year	-	-	9,088,351	-	-	-	**9,088,351**
Proposed dividend	-	-	(4,544,175)	-	4,544,175	-	**-**
Transfer to regulatory credit risk reserve	-	-	(639,292)	-	-	639,292	**-**
Transactions with owners	**-**	-	-	-	-	-	**-**
Issue of share capital	-	-	-	-	-	-	**-**
At 31 December 2019	**43,000,000**	**-**	**18,818,879**	**-**	**4,544,175**	**639,292**	**67,002,346**

The notes set out on pages 39 to 93 form an integral part of these financial statements.

	Notes	2019	2018
		Ushs '000	Ushs '000
Net cash inflow from operating activities	29	(3,243,405)	18,303
Cash flow from investing activities			
Acquisition of property and equipment	18	(6,339,012)	(9,181,077)
Acquisition of Intangible assets	20	(503,250)	(5,556,826)
Investment in Work in progress	19	(110,335)	(2,491,359)
Investment in deposits due from banks		-	(23,583,499)
Net cash out flow from investing activities		(6,952,597)	(40,812,761)
Cash flow from financing activities			
Receipts from borrowings and managed funds during the year	24	25,560,687	38,299,293
Loan repayments during the year		(13,101,419)	(17,629,597)
Payment of lease liabilities		(2,377,700)	-
Net cash inflow from financing activities		8,379,404	20,669,696
Net decrease in cash and cash equivalents		(114,434)	(20,124,762)
Cash and cash equivalents at 1 January		17,995,904	38,120,666
Cash and cash equivalents at 31 December	30	17,881,470	17,995,904

The notes set out on pages 39 to 93 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 entity 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 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 and comply with International Financial Reporting Standards (IFRS), the Ugandan Companies Act and the Financial Institutions Act.

i **Basis of measurement**
The financial statements are prepared under the historical cost convention, except for the fair valuation of certain financial instruments.

ii **Basis of preparation**
The Financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), Companies Act of Uganda and the Financial Institutions Act. This is the first set of financial statements in which IFRS 16 has been applied. The related changes to significant accounting policies are disclosed in note 3(b).

iii **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 14 and 31 for further details)

ii. Provisions
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 provisions included in the financial statements see note 31.

b) Changes in significant accounting policies
The Bank has initially adopted IFRS 16 from 1 January 2019. A number of other standards are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements. The Bank applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information throughout these financial statements has not generally been restated to reflect its requirements.

i. Definition of a lease;
Previously the Bank determined at contract inception whether an arrangement is or contains a lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in (ii) below. On transition the Bank applied IFRS 16 only to contracts that were previously identified as leases.

ii. As a lessee
As a lessee, the Bank leases some branches and office premises. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for leases of branch and office premises i.e. these lease are on balance sheet.

At commencement or on modification of a contract, the Bank has elected not to separate non lease components and account for the lease and associated non-lease component as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the lease payments discounted at the Bank's incremental borrowing rate as at 1 January 2019 (see note 3 (iv))

Right of use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Bank's incremental borrowing rate at the date of initial application.

- The Bank used the following when applying IFRS 16 to leases previously classified as operating leases:
- Relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent liabilities and contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- Did not recognise right of use assets and liabilities for leases for which the term ends within 12 months of the date of initial application;

Excluded initial direct costs from measuring the right of use asset at the date of initial recognition.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

iii. As a lessor
The Bank shares some of the rented premises and these have been treated as sub leases. The lease is treated as an operating lease where the contracts are short term (12 months and below) and the payment made by the sub lessee is recognized as lease income.

iv. Impact on financial statements
On transition to IFRS 16, the Bank recognized additional right of use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below:

In million Uganda shillings	1 January 2019
Prepaid rent	(967)
Right of use assets	13,584
Lease liability	(13,322)
Retained earnings	705

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 15%.

c) Property and equipment

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

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying value of property and equipment and recognized net with other income in profit or loss.

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

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

	Percentage
Motor vehicles, 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	Lease term(adjusted for the non-cancellable renewal option

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

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

d) Foreign currency transactions

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

e) Other assets

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

f) Cash and cash equivalents

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

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

g) Provisions and other liabilities

A provision is recognized if, as a result of a past event, BRAC Uganda Bank Limited has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.
Other accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

h) 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 accruals 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.

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms 2018	Revenue recognition under IFRS 15
Category A	These are transactional fees based on revenue that mainly comprise of but not limited to membership fee.	▪ Enforceable arrangement with customer exists. ▪ Performance obligation (PO) – the company admits the client as a member eligible for a loan ▪ Transaction price – annual fees in line with the contractual agreement. ▪ Allocation of price to PO – single performance obligation, no allocation necessary. ▪ PO satisfied – At a point in time when the individual has been admitted as a member.
Category B	Sale of pass books – It's a fee charged on the sale of pass books to customers.	▪ Enforceable arrangement with customer exists. ▪ Performance obligation (PO) – the Bank provides a pass book to the client on request ▪ Transaction price – the standard price for the pass book. ▪ Allocation of price to PO – single performance obligation, no allocation necessary. ▪ PO satisfied – At a point in time when the bank provides the customer with a pass book.

iii. Other income

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

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

j) Grants

i. Donor Grants

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

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

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

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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 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 a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating Bank or is a special-purpose Bank;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying asset.

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

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

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise 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 Writeoff 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 amortised 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 recognises 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, including the new modified financial liability. If the modification of a financial liability is not accounted for as derecognition, then the amortized Cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.
Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iv. 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 realise 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.

v. Fair value measurement
'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price in an active market, then the Bank uses valuation techniques that 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.

vi. Impairment

Policy applicable from 1 January 2018

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

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

No impairment loss is recognized on equity investments.

Measurement of ECL

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

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

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

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the historical recovery rates of claims against counter parties. The LGD model considers the structure and recovery cost of any collateral that is integral to the financial asset. The LGDs are calculated on a discounted cashflow basis using the effective interest rate as the discounting factor.

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

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

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

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 estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

— significant financial difficulty of the borrower or issuer;
— a breach of contract such as a default or past due event;
— the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
— it is becoming probable that the borrower will enter the bankruptcy or other financial reorganisation; or
— 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 an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision and;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

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

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

vii. 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

i. New standards that became effective during the year

New amendments or interpretation effective for annual periods beginning on or after 1 January 2019 are summarized below:

New amendments or interpretation	Effective date
▪ IFRS 16 Leases	1 January 2019
▪ IFRIC 23 Uncertainty over Income Tax treatments	
▪ Prepayment Features with Negative Compensation (Amendments to IFRS 9) Ventures	
▪ Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	
▪ Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)	
▪ Annual Improvements to IFRSs 2015–2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	

All Standards and Interpretations were adopted at their effective date (except for those Standards and Interpretations that are not applicable to the company).

IAS 28, IAS 19, are not applicable to the business of the company and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

IFRS 16 *Leases*

This standard will replace the existing standard IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a Right Of Use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 have not changed substantially in terms of this standard as a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17.

In addition, the standard requires lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

The impact of the adoption of IFRS 16, leases, is indicated under note 3b(iv)

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

The interpretation did not have a significant impact on the financial statements of the Bank.
IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify those financial assets containing prepayment features with negative compensation can now be measured at amortized cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendment did not have a significant impact on the financial statements of the Bank.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019

At the date of authorization of financial statements of BRAC Uganda Bank Limited for the year ended 31 December 2019, the following Standard and Interpretations were in issue but not yet effective;

New standard or amendments	Effective for annual periods beginning on or after
▪ Amendments to references to Conceptual Framework in IFRS Standards	1 January 2020
▪ Definition of a Business (Amendments to IFRS3)	
▪ Definition of Material (Amendments to IAS 1 and IAS 8)	
▪ Interest Rate Benchmark Reform (Amendments to IFRS9,IAS39 and IFRS7)	
▪ Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	
▪ IFRS 17 Insurance contracts	1 January 2021

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

Amendments to IAS 19, IFRS 17, IAS 28, IFRS 3 and IFRS 10 are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Amendment (Effective for periods beginning 1 January 2020 with earlier application permitted).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS standards. The amendments will not have a significant impact on the Bank's financial statements.

4. INTEREST INCOME ON LOANS AND ADVANCES

	2019	2018
	Ushs '000	Ushs '000
Group loans	69,903,022	64,895,312
Small Enterprises program	16,881,685	13,236,918
Internally displaced persons (IDP)	-	400,859
Agriculture group loans	81,446	65,609
Agriculture line of credit	2,701	-
Empowerment and Livelihood of Adolescents (ELA)	1,877,394	3,177,875
Staff secured personal loan	846	-
Community Health Promoters (CHP)	290	521
Loan appraisal fees	2,646,523	3,821,719
Total	**91,393,907**	**85,598,813**

5. OTHER INTEREST INCOME

	2019	2018
	Ushs '000	Ushs '000
Interest income on current accounts	461,866	254,464
Interest income on deposits with banks	3,167,937	3,877,893
Total	**3,629,803**	**4,132,357**

The interest income from loans and advances and other interest income on deposits was earned using the effective interest method.

6. a) INTEREST EXPENSE ON BORROWINGS

	2019	2018
Lender	Ushs '000	Ushs '000
Bank of Africa	1,543,863	48,693
Responsibility Investment	48,752	398,512
Oiko Credit	1,605,419	1,657,412
Stromme Microfinance	481,438	834,719
FMO	3,473,889	2,741,969
TIM	3,541,870	2,805,706
GP	1,770,602	1,388,742
aBi Trust	821,479	712,351
Total	**13,287,312**	**10,588,104**

b) OTHER FINANCE COSTS ON BORROWINGS

	2019	2018
	Ushs'000	Ushs'000
Service charge	1,353,116	836,266
Interest expense on voluntary savings	142,567	-
Interest on lease liability	1,702,165	-
Withholding tax on interest	293,838	325,702
Total	**3,491,686**	**1,161,968**

The service charge relates to quarterly commitment fees for borrowings.

7. MEMBERSHIP FEES AND OTHER CHARGES

	2019	2018
	Ushs'000	Ushs'000
Membership fee	223,290	441,321
Loan application fee	224,879	39,504
Other operating income	153,476	423,103
Income from subleasing right of use assets	28,951	-
Ledger fees	498,321	-
Bank statement fees	9	-
Cash withdrawal fees	2,241	-
Administrative fee from credit life insurance	105,397	58,231
Income from written off loans	265,212	268,826
Sale of passbooks	72,366	69,574
Total	**1,574,142**	**1,300,559**

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

8. NET FINANCE INCOME

	2019	2018
	Ushs '000	Ushs '000
Unrealized foreign exchange gains	-	331,239
Realized foreign exchange gains	358,765	63,453
Total	**358,765**	**394,692**

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.

9. STAFF COSTS

	2019	2018
	Ushs '000	Ushs '000
Salaries	25,201,519	20,764,283
Wages	2,314	1,467
Bonus	1,825,966	1,052,132
NSSF employer contribution	2,710,428	2,173,292
Insurance for staff	1,191,062	1,027,959
Staff meals	2,744,336	-
Provident fund	93,775	-
Staff training and development	1,017,671	1,233,144
Staff loan benefit	1,106	
Leave days expense/(reversal)	206,514	(54,311)
Total	**34,994,691**	**26,197,966**

10. OTHER OPERATING EXPENSES

	2019	2018
	Ushs '000	Ushs '000
Occupancy expenses **(10b)**	4,738,733	5,441,204
Publication, communication and marketing costs	1,959,143	499,702
Travel and transportation	8,120,449	8,469,559
Maintenance and general expenses	1,356,078	1,182,873
Printing and office stationery	1,966,161	1,120,149
Insurance for assets	24,645	15,637
Insurance for cash	46,261	-
Bad debt/Interest write off	60,337	840,218
Software development and maintenance	1,104,428	783,387
Fixed assets write off/loss on disposal	-	104,539
Consultancy & legal services	1,848,232	700,360
Office equipment	190,021	137,291
Provision for audit fees	246,998	251,179
Other tax expenses/licenses	43,092	804,205
Tax penalty	81,704	-
Staff defalcations	-	54,430
Provision for donations	835,789	1,100,000
Loan recovery costs	46,182	88,161
Governance/ board costs	188,039	-
Leased lines	310,389	-
HO logistics and management expenses	-	2,980,610
Total	**23,166,681**	**24,573,504**

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10 (b). Occupancy expenses are analyzed as follows;

	2019	2018
	Ushs '000	Ushs '000
Rent	-	2,769,349
Short term lease expense	417,502	-
Utilities	503,716	256,613
Security	3,817,515	2,415,242
Total	**4,738,733**	**5,441,204**

The significant reduction in rent expense during 2019 is due to adoption of IFRS 16 during the year.

11. TAXATION

11.1 Income tax expense

	2019	2018
	Ushs '000	Ushs '000
Current tax	3,323,456	6,750,634
Under provision for corporation tax in prior years	479,442	58,065
Deferred tax charge/(credit) (Note 11.2)	2,824,714	(148,352)
Tax effect of transition adjustment	-	616,321
Tax expense	**6,627,612**	**7,276,668**

The corporation tax rate is set at 30% of the 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 profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows.

	2019	2018
	Ushs '000	Ushs '000
Operating profit before taxation	15,715,963	24,495,411
Tax calculated at 30%	**4,714,789**	**7,348,623**
Tax effect of:		
Under provision for corporation tax in prior year	400,810	58,065
Prior year over provision for deferred tax	-	(153,865)
Non-deductible expense and non-taxable income	1,433,381	23,845
Income tax charge for the year	**6,627,612**	**7,276,668**
Effective corporation tax rate	**42%**	**30%**

11. 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 2019 are attributed to the following items:-

	2018	IFRS 16 Transition	P&L Movement	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
	(4,003,407)	**540,096**	**9,415,716**	**5,952,405**
Deferred tax asset @ 30%	**(1,201,022)**	**162,029**	**2,824,714**	**1,785,721**
Deferred tax (asset)/ liability @ 30%	**(1,201,022)**	**162,029**	**2,824,714**	**1,785,721**

11.3 Tax payable / (Recoverable)

	2019	2018
	Ushs '000	Ushs '000
At 1 January	(948,826)	(412,184)
Charge for the period	3,323,456	6,750,634
Under provision for corporation tax in previous years	479,442	58,065
Corporation tax paid during the year	(2,113,206)	(7,222,664)
WHT paid during the year	-	(122,677)
At 31 December	**740,866**	**(948,826)**

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;

1. BRAC Uganda Bank Limited also declared a dividend of Ushs 66 billion to the shareholders (BRAC International Holdings BV). This would attract withholding tax of 15% of the gross amount. The transaction may qualify 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.

   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 has sought a private ruling from URA to confirm whether this dividend payment qualifies for exemption under the treaty.
   The financial statements have been prepared on the basis that the above ruling will be made in favour of the Bank and as such no tax liabilities have been accrued as the Directors believe they have a strong case.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12. CASH AND BALANCES WITH THE CENTRAL BANK

	2019	2018
	Ushs '000	Ushs '000
Cash in hand	880,383	5,982
Balances with the central bank	1,000,000	-
Cash reserve requirement	-	-
	1,880,383	**5,982**

The expected loss on balances with the Central Bank has not been recognized in these financial statements as the amount is immaterial.

13. DEPOSITS AND BALANCES DUE FROM BANKS

13 (a). Bank Balances	2019	2018
	Ushs '000	Ushs '000
Standard Chartered Bank	180,919	75,141
Bank of Africa	9,061,638	6,468,319
Centenary Bank	520,922	247,249
Equity Bank	123,964	83,743
DFCU Bank	22,072	51,583
Post Bank	189,510	258,880
Pride Microfinance Ltd	19,151	27,008
Tropical Bank	47,783	17,903
Stanbic Bank	2,909,163	7,751,461
Cash and bank	**13,075,122**	**14,981,287**
ECL allowance	(145,472)	(167,258)
Net cash and bank	**12,929,650**	**14,814,029**

13 (b). Placements and deposits with other banking Institutions	2019	2018
	Ushs '000	Ushs '000
Standard Chartered Bank	-	2,056,774
UGAFODE Microfinance	3,577,603	2,058,126
Mercantile Bank	605,425	
Post Bank	-	2,080,692
Pride Microfinance	-	5,250,110
FINCA MDI	3,028,208	2,847,132
Orient Bank	-	6,223,045
Opportunity Bank	10,167,514	6,076,255
Total	**17,378,750**	**26,592,134**
ECL allowance	(193,947)	(296,768)
Net deposits and balances due from banks	**17,184,803**	**26,295,366**
Total deposits and balances due from banks	**30,114,454**	**41,109,396**

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

	2019	2018
	Ushs '000	Ushs '000
Within 3 months	16,001,087	17,983,941
After 3 months	14,113,366	23,125,455
Total	**30,114,453**	**41,109,396**

The weighted average effective interest rates on deposits due from the banks were 14.33%. (2018:11.7%). The carrying book values of the deposits with the banks approximate the fair value

14. LOANS AND ADVANCES TO CUSTOMERS

14.1 Loans and advances

	2019	2018
	Ushs '000	Ushs '000
Group loans	142,478,601	138,223,535
Small Enterprises Program	42,961,193	37,571,578
Empowerment and Livelihood of Adolescents (ELA) loans	6,337,588	7,141,624
Internally Displaced Persons (IDP) loans	-	986,822
Community Health Promoters (CHP) loans	778	212
Agriculture group loans	230,487	227,761
Agriculture line of credit	12,568	-
Staff personal secured loan	187,423	-
Gross Loans and Advances	**192,208,638**	**184,151,532**
Expected credit losses		
Stage 1	(674,750)	(4,061,557)
Stage 2	(42,932)	(36,794)
Stage 3	(3,560,121)	(3,132,323)
	(4,277,803)	**(7,230,674)**
Net loans and advances to customers	**187,930,835**	**176,920,858**

The weighted average effective interest rate on loans and advances to customers is 47.0% (2018: 47.7%)

Advances to customers are carried at amortized cost. It is estimated that the carrying values of advances to customers are approximately the fair value.

	2019	2018
Highest loan amount (Ushs)	60,000,000	45,000,000
Lowest loan amount (Ushs)	50,000	100,000
Average loan term (weeks)	40	40
Total number of loan customers	216,787	218,598

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

14.3 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:

	2019	2018
	Ushs '000	Ushs '000
At 1 January	7,230,674	4,860,353
Adoption of IFRS 9	-	2,054,403
Charge for the year	1,431,332	2,951,849
Loan write-off	(4,384,203)	(2,338,114)
Interest receivable - write-off	-	(297,817)
At 31 December	**4,277,803**	**7,230,674**
Charge to profit or loss		
Net increase in provisions	1,431,332	2,951,849
Net charge to profit or loss as above	**1,431,332**	**2,951,849**

14.4 Sectoral analysis of loans and advances to customers

	2019	2018
	Ushs '000	Ushs '000
Agriculture	32,084,530	44,982,927
Non-agriculture business	160,124,108	139,168,604
	192,208,638	**184,151,531**

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.

Exposure 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

15. EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS – PROFIT/LOSS CHARGE

	2019	2018
	Ushs '000	Ushs '000
Loans and advances (Note 14.3)	1,431,332	2,951,849
Deposits with banks	(102,821)	296,768
Bank balances	(21,785)	167,258
Total	**1,306,726**	**3,415,875**

16. RELATED PARTY DISCLOSURE

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

16.1 RELATED PARTY RECEIVABLES

	2019	2018
	Ushs '000	Ushs '000
BRAC International Holdings BV	**2,358,443**	**-**

16.2 RELATED PARTY PAYABLES

	2019	2018
	Ushs '000	Ushs '000
BRAC Bangladesh	4,590	17,457
BRAC Uganda	771,543	372,419
BRAC International Holdings BV-against dividend	24,209,311	66,164,311
BRAC International Holdings BV-against management expenses	-	1,567,028
	24,985,444	**68,121,215**

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.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

16. 3 OTHER RELATED PARTY TRANSACTIONS DURING THE YEAR:

i) Loans and advances to related party

	2019	2018
	Ushs '000	Ushs '000
To executive officers	-	-
To employees	213,800	-
Total	**213,800**	**-**
Interest earned on the loans	**846**	**-**

Loans and advances to customers as at 31 December 2019 also include loans to employees of Ushs 211million (2018: Nil). The collective impairment relating to employee loans was Ushs 1.7 million (2018: Nil)

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:

	2019	2018
	Ushs '000	Ushs '000
Salaries and other short term compensation	**2,343,781**	**1,405,252**

iii) Directors' remuneration

	2019	2018
	Ushs '000	Ushs '000
Fees for services as directors	140,010	-

iv) Other related party transactions

	2019	2018
	Ushs '000	Ushs '000
HO Logistics and management expenses	-	2,980,610
Payable to BRAC IT services	-	580,610

17. OTHER ASSETS

	2019	2018
	Ushs '000	Ushs '000
Advance to suppliers/ other assets	187,738	-
Prepaid rent	282,778	1,400,241
Prepaid insurance	864,413	655,422
WHT receivable	257,863	723,539
Security deposits	1,800	1,800
Receivable from MTN	1,162	19,512
Employee receivables	26,525	4,925
Swifin account- receivables from E cash	3,018	1,252
Cash shortages recoverable	16,292	-
Deferred staff expense (Arising from fair value of staff loans)	22,729	-
Loan arrangement fees	299,470	-
Total	**1,963,788**	**2,806,691**

18. PROPERTY AND EQUIPMENT

	Furniture	Equipment	Motor vehicles	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Cost				
At 1 January 2018	**3,711,930**	**2,197,305**	**488,636**	**6,397,871**
Additions	5,072,033	4,109,044	-	9,181,077
Disposal	(162,349)	(704,434)	(26,718)	(893,501)
At 31 December 2018	**8,621,614**	**5,601,915**	**461,918**	**14,685,447**
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
At 31 December 2019	**10,241,258**	**12,579,335**	**609,682**	**23,430,275**
Depreciation				
At 1 January 2018	**796,765**	**1,158,417**	**131,189**	**2,086,371**
Charge for the year	516,764	437,104	93,606	1,047,474
Accumulated depreciation on disposal	(119,146)	(640,461)	(26,488)	(786,095)
At 31 December 2018	**1,194,383**	**955,060**	**198,307**	**2,347,750**
Charge for the year	1,216,522	2,091,202	100,583	3,408,307
At 31 December 2019	**2,410,905**	**3,046,262**	**298,890**	**5,756,057**
Net Book Value				
At 31 December 2019	**7,830,353**	**9,533,073**	**310,792**	**17,674,217**
At 31 December 2018	**7,427,231**	**4,646,855**	**263,611**	**12,337,697**

19. CAPITAL WORK IN PROGRESS

	Computer Soft ware	Computer Hardware	Branch Refur-bishment	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Cost				
At 1 January 2018	-	-	-	-
Additions	5,556,826	2,305,855	185,474	8,084,185
At 31 December 2018	**5,556,826**	**2,305,855**	**185,474**	**8,084,185**
Additions	-	-	110,335	110,335
Capitalized	(5,556,826)	(2,305,855)	(185,474)	(8,084,185)
At 31 December 2019	-	-	**110,335**	**110,335**

The items included in the capital works in progress expenditures on branch refurbishments that had not been commissioned as at the balance sheet date.

20. INTANGIBLE ASSETS

	Ushs '000
Cost	
At 31 January 2019	**-**
Additions	503,250
Capitalization of Capital Work In Progress	5,556,826
At 31 December 2019	**6,060,076**
Depreciation	
At 31 January 2019	**-**
Charge for the year	577,782
At 31 December 2019	**577,782**
Net book value	
At 31 December 2019	**5,482,294**

21. LEASES

The Bank leases a number of branches and office premises. The leases typically run for a period of 2-10 years, with an option to renew the lease after that date.

Previously these leases were classified as operating leases under IAS 17. 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

	Ushs '000
Cost	
At 1 January 2019 (Initial recognition)	15,252,290
Additions	-
Disposal	-
At 31 December 2019	**15,252,290**
Depreciation	
At 1 January 2019 (Initial recognition)	1,667,745
Charge for the year	1,828,850
At 31 December 2019	**3,496,595**
Net book value	
At 31 December 2019	**11,755,695**
At 1 January 2019 (initial recognition)	**13,584,545**

As at 31 December 2019, the future minimum lease payments under non-cancellable operating leases were as follows.

Maturity analysis – Contractual undiscounted cash flows

	2019
	Ushs'000
Less than one year	215,552
Between one and five year	397,575
More than five years	20,114,871
Total undiscounted lease liabilities at 31 December	**20,727,998**

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2018
	Ushs'000
Less than one year	254,088
Between one and five year	1,012,949
More than five years	22,638,621
Total undiscounted lease liabilities at 31 December	**23,905,658**

(ii) Amounts recognized in profit or loss

	2019
Leases under IFRS 16	**Ushs '000**
Depreciation of right of use asset	1,828,850
Interest on lease liability	1,702,165
Expenses relating to short term leases	417,502
	3,948,247
	2018
2018 – Operating leases under IAS 17	**Ushs '000**
Rent expense	2,769,349

(iii) Amounts recognized in the statement of cash flows

	2019
	Ushs '000
Interest payment for lease liability	**1,702,164**
Principal payment for lease liability under financing activities	**2,377,700**
Total cash outflow for leases	4,079,864

(iv) Lease liability

	Ushs '000
Cost	
Initial recognition	15,252,290
Interest expense	1,677,045
Lease payments	(3,606,895)
At 1 January 2019	**13,322,440**
New leases during the period	-
Interest expense for the period	1,702,164
Lease payments during the period	(3,113,123)
At 31 December 2019	**11,911,481**

22. LOAN SECURITY FUND

	2019	2018
	Ushs '000	Ushs '000
Opening balance	32,003,770	28,315,745
Received during the year	3,938,834	13,403,089
Paid off/adjusted during the year	(1,481,692)	(9,715,064)
Total	**34,460,912**	**32,003,770**

The Loan Security Fund acts as collateral for the customers' loan obligations (Bank loans) to BRAC 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.

23. DEPOSITS FROM CUSTOMERS

	2019	2018
	Ushs '000	Ushs '000
BRAC Flex accounts	10,492,888	-
BRAC corporate	57,767	-
BRAC fixed deposits	6,944,621	-
BRAC Wise	102,702	-
BRAC staff	952,784	-
Total	**18,550,762**	**-**

24. BORROWINGS AND MANAGED FUNDS

	2019	2018
Borrowed funds	**Ushs '000**	**Ushs '000**
ResponsAbility Investments AG (iii)	-	732,445
Bank of Africa (ii)	11,855,598	-
Stromme Microfinance (iv)	1,847,197	3,749,845
Oiko Credit (v)	8,920,000	13,374,247
FMO Entrepreneurial Development Bank (vii)	22,383,967	22,372,202
Triodos Investment Management (viii)	22,390,573	22,375,611
Global Partners (ix)	11,173,466	11,178,912
aBi Trust and Finance (vi)	12,817,952	4,508,011
Other financial costs payable (x)	219,645	-
Managed Funds	-	-
Kiva (i)	1,143,570	2,001,427
Total	**92,751,968**	**80,292,700**

For maturity analysis of the above loans, refer to 31(e).

i) Kiva

In November 2007, BRAC Uganda Bank Limited[1] 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 USD 327,060 within the year 2018. In 2019 BRAC Uganda Bank received USD 152,975 and paid to Kiva USD 282,694 within the period. The facility has outstanding balance of USD of 312,006.68 equivalent to Ushs 1.1 billion.

ii) Bank of Africa

In March 2019, BRAC Uganda Bank Limited obtained a loan from Bank of Africa amounting to Ushs 15,000,000,000 equivalent to USD 4,092,535. The loan period is 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 11.9 billion. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio

iii) ResponsAbility Investments AG

In July 2015, a loan agreement was signed with ResponsAbility Investments AG worth USD 4,500,000 to the equivalent of Ushs 15,079 million. The first tranche of USD 2,500,000 was immediately disbursed and the second one disbursed at close of November 2015. The facilities are payable in a period of 3 years at an interest rate of 6.95%. The outstanding balance of USD 277,778 was due in September 2019 which was fully paid on 3rd September 2019. The loan was not secured.

iv) Stromme Microfinance

In August 2016, a loan agreement was signed between BRAC Uganda Bank Limited and Stromme Microfinance Limited amounting to Ushs 5.5 billion. The principle is repayable within 4 years and attracts an interest rate of minimum 18% pa with one year's grace period for principal. The amount was disbursed on the 15 November 2016. Principle 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 balance is Ushs 1.9 billion maturing in 2021.

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 will be repaid 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 8.9 billion will be maturing in 2021.

vi) aBi Finance Limited

In July 2017, a loan agreement was signed between BRAC Uganda Bank Limited and aBi Finance 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. Principle 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 2.8 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. Principle 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%

1 successor in title to BRAC Uganda Microfinance Ltd by guarantee following re-organization

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

vii) FMO

In July 2017, BRAC Uganda Bank Limited obtained a loan from FMO, the loan agreement was for a total principal loan amount of USD 6 million equivalent to USHS for a period of 4 years, at a rate of 16.49% and disbursed in 4 tranches. The first tranche of USD 1,600,000 was disbursed in July 2017 and the second tranche was disbursed in December 2017 of USD 1,000,000 at an interest rate of 15.10%. The final disbursements of Ushs 12,833,706,000 equivalent to USD 3,359,020 was drawn down in 2018.The loan principal repayments will commence in June 2020.The loan is not secured.

viii) Triodos

In July 2017, BRAC Uganda Bank Limited obtained a loan from Triodos, the loan agreement was for a total principal loan amount of USD 6 million for a period of 4 years, at a rate of 16.51% and disbursed in 4 tranches. The first tranche of USD 1,600,000 was disbursed in July 2017 and the second tranche was disbursed in December 2017 of USD 1,000,000 at an interest rate of 15.57%. The final disbursements of Ushs 12,833,706,000 equivalent USD 3,359,020 was drawn down in 2018.The loan principal repayments will start in June 2020.The loan is not secured.

ix) Global Partners

In June 2017, BRAC Uganda Bank Limited obtained a loan from Global partners, the loan agreement was for a total principal loan amount of USD 2 million for a period of 4 years, at a rate of 16.63% and disbursed in 4 tranches. The first tranche of USD 800,000 was disbursed in July 2017 and the second tranche was disbursed in December 2017 of USD 500,000 at an interest rate of 15.10%. The final disbursements of Ushs 6,416,853 equivalent USD 1,679,510 was drawn down in 2018. The loan principal repayments will commence in June 2020.The loan is not secured.

Value of security held

Bank of Africa, Stromme Microfinance and the Oiko Credit loans are secured against the loan portfolio, All the other loans and advances are unsecured.

x) Other financial costs payable

The other financial costs of Ushs 219 million are tagged to the WHT of 15% that BRAC Uganda Bank pays as an extra cost on OIKO loan and on Enclude (the consultants on club loans from FMO, Triodos and Global patterns).

24.1 Analysis of movement in Borrowings and managed funds

	2019	2018
	Ushs '000	Ushs '000
At 1 January	**80,292,700**	**59,623,004**
Receipts during the year	25,560,687	38,299,293
Interest expense	13,476,898	11,750,071
Payments during the year	(26,578,317)	(29,379,668)
At 31 December	**92,751,968**	**80,292,700**

25. OTHER LIABILITIES

	2019 Ushs '000	2018 Ushs '000
Accruals for expenses	1,875,800	382,076
CRB fees payable	23,084	-
Staff leave provision	484,907	345,399
Provision for audit fees	126,139	124,872
NSSF withholdings	621,587	446,133
Salary provision	7,042	65,500
Stamp duty provisions	18,220	-
Excise duty	21,167	-
Tax withholdings	1,126,401	229,096
Tax penalty payable	81,704	-
VAT payable*	866,703	880,580
Credit life insurance premium payable	180,368	144,931
PAYE payable	1,065,472	706,237
Unclaimed bank credits	45,153	-
Provident fund payable	6,781	-
Credit life insurance claim payable	121,809	195,063
Other liabilities	2,058	-
Total	**6,674,395**	**3,519,887**

*Following URA's ruling regarding the transfer of assets from BRAC Uganda Microfinance Limited to BRAC Uganda Finance Limited, (refer to note 11), the Bank has provided for the VAT liability based on 18% of the net book value of the property plant and equipment as at 31 December 2017. The Bank appealed but has not received a response URA.

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

26. DONOR FUNDS

	Note	2019 Ushs '000	2018 Ushs '000
Donor funds received in advance	26.1	337,876	153,412
Donor funds investment in fixed assets	26.3	68,672	507,010
Donor funds investment in loans to Bank members	26.4	-	-
Total		**406,548**	**660,422**

Donor funds relate to grants received from various donors to support microfinance operations in hard to reach areas. Part of the grants were meant for capital items needed to set up offices in those areas.

26.1 Donor funds received in advance

	Note	2019 Ushs '000	2018 Ushs '000
Opening balance		153,412	153,412
Donations received during the year	26.2	567,877	-
Transferred to statement of comprehensive income	26.5	(383,413)	-
Closing balance		**337,876**	**153,412**

26.2 Donations received during the year

Name of donor	2019 Ushs '000	2018 Ushs '000
Government of Luxemburg	167,349	-
RUE	10,222	-
BRAC NGO	372,821	-
World Bank	17,485	-
	567,877	**-**

26.3 Donor funds investment in fixed assets

	Note	2019 Ushs '000	2018 Ushs '000
Opening balance		507,010	560,891
Transferred to statement of comprehensive income	26.6	(438,338)	(53,881)
Closing balance		**68,672**	**507,010**

26.4 Donor funds investment in loans to group members

	2019 Ushs '000	2018 Ushs '000
Opening balance	-	4,490,123
World Bank (JSDF Loan)	-	-
Transfer to equity	-	(4,490,123)
Closing balance	**-**	**-**

26.5 Transfers to statement of comprehensive income

	2019 Ushs '000	2018 Ushs '000
Transferred to statement of comprehensive income from donor funds	383,413	-
Release of deferred income on donor assets	-	53,881
Total	**383,413**	**53,881**

26.6 Deferred income – fixed assets

	2019 Ushs '000	2018 Ushs '000
Opening balance	507,010	560,891
Transfer to statement of comprehensive income	(438,338)	(53,881)
Total	**68,672**	**507,010**

27. **SHARE CAPITAL**

The total number of authorized, issued and paid ordinary shares as at 31 December 2019 was 4,300,000 shares at Ushs 10,000 each. The amount recognized as share capital was transferred from the retained earnings of BRAC Uganda 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 2019, the shareholding structure of the Bank was as below;

	2019	2018
	Ushs '000	Ushs '000
BRAC International Holdings BV	21,070,000	42,999,990
Farugue Ahmed	-	10
Deutsche Investitions und Entwicklungsgellschaft mbH	7,310,000	-
ASN Microkerdietpool	7,310,000	-
ShoreCap 111,LP	7,310,000	-
Total	**43,000,000**	**43,000,000**

28. **DIVIDEND**

The Directors proposed a dividend of Ushs 4.5 billion for year ended 31 December 2019. For the year ended 31 December 2018, a dividend of Ushs 66.2 billion was declared and partially paid with the unpaid balance included in the related party payables under note 16.2.

29. **CASH FLOWS FROM OPERATING ACTIVITIES**

	2019	2018
Cash flow from operating activities	**Ushs '000**	**Ushs '000**
Profit before tax	**15,715,963**	**24,495,411**
Adjustments for:		
Loss on asset write off	-	107,406
Depreciation and amortization	5,814,939	1,047,474
Release of deferred income on donor assets	(253,874)	(53,881)
Impairment provision expense	698,843	3,415,875
Impairment of securities	(124,607)	-
Interest expense- IFRS 16	1,702,165	-
Interest expense	13,476,898	11,750,071
Cash flow before changes in working capital	**37,030,327**	**40,762,356**
Changes in working capital		
Increase in loans and advances	(11,730,606)	(28,141,316)
Decrease/(Increase) in receivables and other assets	842,902	(173,653)
(Decrease)/increase in related party receivables	(2,358,442)	1,784,903
(Increase)/decrease in related party payables	(43,135,771)	1,081,302
Decrease/(increase) in other Liabilities	3,154,507	(10,579)
Changes in short term deposits	9,238,042	-
Changes in deposits from customers	18,550,762	-
Increase in loan security fund	2,457,142	3,688,025
Cash inflow from operations	**14,048,863**	**18,991,038**
Income taxes paid	(2,113,206)	(7,222,664)
Interest paid – IFRS 16	(1,702,164)	-
Interest paid	(13,476,898)	(11,750,071)
Net cash inflow from operating activities	**(3,243,405)**	**18,303**

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

30. **CASH AND CASH EQUIVALENTS**

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

	2019	2018
	Ushs '000	Ushs '000
Cash on hand and balances with the Central Bank	1,880,383	5,982
Deposits with other financial institutions	12,929,650	14,814,029
Investments with other financial institutions with a 3 months tenor	3,071,437	3,175,893
Total	**17,881,470**	**17,995,904**

31. **FINANCIAL RISK MANAGEMENT**

a) **Introduction and overview**

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

i) Capital risk
ii) Credit risk
iii) Interest rate risk
iv) Liquidity risk
v) Market risk
vi) Operations risk

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

Risk management framework

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

The Board of BUBL, has established five board committees to ensure adequate oversight of the bank's risk management. The Board Committees are reflected on Page 4, 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 BUBL within the limits set by the Board of Directors and they ensure that the appropriate risk management practices are in place and operating effectively.

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

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

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

Abridged view of Brac Uganda Bank Limited's Risk Management Framework

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

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern 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 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:

	2019	2018
	Ushs '000	Ushs '000
Other liabilities	6,674,395	3,519,887
Due to related parties	24,985,444	68,121,215
Borrowings	92,751,968	80,292,700
Less: Cash and cash equivalents	(17,881,470)	(17,995,904)
Net debt	**106,530,337**	**133,937,898**
Equity	67,002,209	58,780,662
Capital and net debt	**173,532,546**	**192,718,560**
Net debt to equity ratio	**62%**	**69%**

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 returns for shareholders and benefits for other stakeholders; and

ii) 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.

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 are broadly in line with those for the Basel Committee on Banking Supervision. 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

	2019	2018
CORE CAPITAL (Tier 1)	Ushs '000	Ushs '000
Paid up share capital	43,000,000	43,000,000
Retained earnings	19,458,171	15,780,662
Less: deductions determined by Bank of Uganda		
Less: Goodwill and other intangible assets	(5,482,294)	(5,556,826)
Less: deferred income tax asset	-	(1,201,022)
Less: unrealized forex exchange gains	-	(331,239)
Total Core Capital	**56,975,877**	**51,691,575**
SUPPLIMENTARY CAPITAL (Tier 2)		
Unencumbered general provisions for losses	1,837,202	1,781,306
Total Supplementary Capital	**1,837,202**	**1,781,306**
TOTAL CAPITAL (Tier 1+Tier 2)	**58,813,079**	**53,472,881**

The table below summarizes the risk weighted assets of the Bank

	Financial Position Nominal amount		Risk Weighting	Risk weighted assets	
	2019	2018		2019	2018
	Ushs'000	Ushs'000		Ushs'000	Ushs'000
Notes and coins	880,383	5,982	0%	-	-
Balances with Bank of Uganda	1,000,000	-	0%	-	-
Balances with banks in Uganda	27,217,003	22,975,218	20%	5,443,401	4,595,044
Balances with other institutions in Uganda	3,236,870	18,598,203	20%	647,374	3,719,641
Loans net of provisions	190,674,312	179,090,981	100%	190,674,312	179,090,981
Premises and other fixed assets	29,429,912	14,829,056	100%	29,429,912	14,829,056
Other assets	4,432,566	2,806,691	100%	4,432,566	2,806,690
TOTAL Risk weighted assets	**256,871,046**	**238,306,131**		**230,627,565**	**205,041,412**

Capital			Ratio	
	2019	2018	2019	2018
	Ushs'000	Ushs'000	(%)	(%)
Tier 1 Capital (Min ratio -10%)	56,975,877	51,691,575	24.70	25.21
Tier 1 and Tier 2 Capital (Min ratio – 12%	58,813,079	53,472,881	25.50	26.08

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:

	2019	2018
	Ushs '000	Ushs '000
Gross loans and advances	194,555,462	184,151,532
Specific provisions for loans and advances	(3,079,894)	(5,060,551)
Interest in suspense	(801,256)	-
Net loans and advances	**190,674,312**	**179,090,981**

b) 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.

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 14 (loans and advances).

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

	2019	2018
	Ushs '000	Ushs '000
Cash and bank	14,810,033	14,912,333
Deposits with Banks	17,184,803	26,565,542
Loans and advances to customers	187,930,835	176,920,858
Other assets	4,322,231	2,452,264
	224,247,902	220,850,997

The above table represents the worst-case scenario of credit risk exposure to the Bank at 31 December 2019 and 31 December 2018 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

	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
Total	182,465,312	4,010,752	5,732,574	192,208,638
	2018			
	Stage 1	Stage 2	Stage 3	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Current : 0.-7 days	175,709,993	-	-	175,709,993
Current : 8-29 days	-	536,538	-	536,538
Overdue: 30- 59 days	-	1,451,632	500,391	1,952,023
Overdue: 60-89 days	-	432,426	394,467	826,893
Overdue: 90-179 days	-	-	1,059,274	1,059,274
Overdue 180- 364 days	-	-	613,221	613,221
Overdue: > 364 days	-	-	3,453,590	3,453,590
Total	175,709,993	2,420,596	6,020,943	184,151,532

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.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included under Note 14 of the financial statements.

	2019				2018
	Stage 1	Stage 2	Stage 3	Total	
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loans and advances at amortized cost	182,465,312	4,010,752	5,732,574	192,208,638	184,151,532
Expected credit loss allowance	(674,750)	(42,932)	(3,560,121)	(4,277,803)	(7,230,674)
Carrying amount	**181,790,562**	**3,967,820**	**2,172,453**	**187,930,835**	**176,920,858**

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
	2019	2018	
Group loans	10%	10%	Cash
Non group loans	10%	10%	Cash
Staff loans	100%	100%	Property and equipment

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

	2019		2018	
	Carrying amount	Collateral	Carrying amount	Collateral
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Stage 1 and 2	186,476,064	18,986,727	178,130,589	17,813,059
Stage 3	5,732,574	657,922	6,020,943	602,094

Amounts arising from ECL
The following table show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2018 represent the allowance account for credit losses and reflect the measurement basis under IFRS 9.

	2019	2018
	12 month ECL	12 month ECL
	Ushs. 000	Ushs.000
Balance at 1 January	7,694,700	6,914,756
Change during the year	1,306,725	3,415,875
Financial assets derecognized	(4,384,203)	(2,635,931)
Balance at 31 December	**4,617,222**	**7,694,700**

ECL disclosures for financial assets

2019	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	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
Total	**1,014,169**	**42,932**	**3,560,121**	**4,617,222**

ECL disclosures for financial assets

2018	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	Ushs. 000	Ushs. 000	Ushs. 000	Ushs. 000
Cash and Bank	167,258	-	-	167,258
Short term deposits	296,768	-	-	296,768
Loans and advances	4,061,557	36,794	3,132,323	7,230,674
Total	**4,525,583**	**36,794**	**3,132,323**	**7,694,700**

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

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

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

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

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. 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;
- 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. This majorly the Consumer price index (CPI) as included in the table below;

	CPIs
As at 31 December 2019	170.33
As at 31 December 2018	175.4

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:

Non micro loans (Individual loans)	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 2019	1,166,947	26,756	17,156	1,210,859
Transfer to stage 1	(1,166,947)	-	1,166,947	-
Transfer to stage 2	-	11,891	(11,891)	-
Transfer to stage 3	-	-	-	-
New financial assets	326,974	4,285	795,181	1,126,440
Write off	-	-	(564,972)	(564,972)
Loss allowance as at 31 December 2019	**326,974**	**42,932**	**1,402,421**	**1,772,327**

Micro loans (group loans)	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 2019	2,878,384	27,013	3,071,534	5,976,931
Transfer to stage 1	(2,878,384)		2,878,384	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	(27,013)	27,013	-
New financial assets	347,776	-	-	347,776
Write off	-	-	(3,819,231)	(3,819,231)
Loss allowance as at 31 December 2019	**347,776**	**-**	**2,157,700**	**2,505,476**

The following table further explains changes in the gross carrying amounts of the loans and advances within the various product segments to help explain their significance to the change in the loss allowances.

Micro (Group) loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life time ECL	Life time ECL	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Gross carrying amount as at 1 January 2019	138,884,536	302,399	7,393,019	146,579,954
Transfer to stage 1	904,604	-	(904,604)	-
Transfer to stage 2	-	(301,212)	301,212	-
Transfer to stage 3	-	-	-	-
New financial assets originated or purchased	2,731,150	3,234,385	-	5,965,535
Write off	-	-	(3,819,231)	(3,819,231)
Gross carrying amount as at 31 December 2019	**142,520,290**	**3,235,572**	**2,970,396**	**148,726,258**

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Non micro (Individual) loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Life time ECL	Life time ECL	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Gross carrying amount as at 1 January 2019	**34,523,036**	**1,821,165**	**1,227,377**	**37,571,578**
Transfer to stage 1	1,251,871	-	(1,251,871)	-
Transfer to stage 2	-	1,782,730	(1,782,730)	-
Transfer to stage 3	-	-	-	-
New financial assets originated or purchased	5,118,375	768,498	588,901	6,475,774
Write off	-	-	(564,972)	(564,972)
Gross carrying amount as at 31 December 2019	**40,893,282**	**806,933**	**1,782,165**	**43,482,380**

Cash and cash equivalents

	2019	2018
	Ushs'000	Ushs'000
Balance as at 1 January	167,258	-
Net re-measurements of loss allowances	(21,786)	167,258
Balance at 31 December	**145,472**	**167,258**

Deposits and balances due from banks

	2019	2018
	Ushs'000	Ushs'000
Balance as at 1 January	296,768	-
Net re-measurements of loss allowances	(102,821)	296,768
New financial assets originated or purchased	-	-
Foreign exchange and other movements	-	-
Balance at 31 December	**193,947**	**296,768**

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.

	2019			
	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**

	2018			
	Loans and advances to customers at amortized cost	Investments at amortized cost	Cash and cash equivalents	Total
Balance at 1 January	6,914,756	-	-	6,914,756
Charge during the year	2,951,849	296,768	167,258	3,415,875
Write offs during the year	(2,635,931)	-	-	(2,635,931)
Balance at 31 December	**7,230,674**	**296,768**	**167,258**	**7,694,700**

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	2019	2018
	Ushs'000	Ushs'000
Agriculture	32,084,530	44,982,927
Mining and quarrying	651,360	-
Manufacturing	1,943,386	27,613,651
Trade and commerce	129,081,952	93,839,013
Transport and Utilities	189,650	-
Building and construction	6,367,455	-
Other services	21,890,305	17,715,941
Total	**192,208,638**	**184,151,532**

c) 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 2019		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	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
Total financial assets		42,969,868	47,893,584	126,994,413	187,423	4,238,825	222,284,113
Non-Financial Assets							
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
Total Non-Financial assets		-	-	-	-	36,986,330	36,986,330
Total assets		42,969,868	47,893,584	126,994,413	187,423	41,225,155	259,270,443
Financial liabilities							
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	14.33%	433,117	3,778,000	22,268,621	65,128,429	1,143,801	92,751,968
Tax payable		-	-	-	-	740,866	740,866
Other liabilities		-	-	-	11,911,481	6,674,395	18,585,876
Total financial liabilities		12,039,258	3,778,000	29,213,242	77,039,910	68,005,418	190,075,828
Donor funds		-	-	-	-	406,548	406,548
Deferred tax payable		-	-	-	-	1,785,721	1,785,721
Total non-financial liabilities		-	-	-	-	2,192,269	2,192,269
Total equity		-	-	-	-	67,002,346	67,002,346
Total liabilities and equity		12,039,258	3,778,000	29,213,242	77,039,910	137,200,033	259,270,443
Interest rate gap		30,930,610	44,115,584	97,781,171	(76,852,487)	(95,974,878)	-

Year ended 31 December 2018	Average interest	Up to 1 month	From 1 to 3 months	From 3 to 12 months	Above 12 months	Non- interest bearing	Total
		Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Financial Assets							
Cash and balances with the central bank		-	-	-		5,982	5,982
Deposits due from other financial Institutions	10%	14,808,048	3,175,893	23,125,455		-	41,109,395
Loans and advances to customers	47.70%	15,237,950	30,477,900	131,205,008		-	176,920,858
Tax recoverable		-	-	-		948,826	948,826
Total financial assets		**30,045,998**	**33,653,793**	**154,330,463**	**-**	**954,808**	**218,985,061**
Non-Financial Assets							
Property and equipment		-	-	-		12,337,697	12,337,697
Deferred tax asset						1,201,022	1,201,022
Other assets						10,854,876	10,854,876
Total non-current assets		**-**	**-**	**-**	**-**	**24,393,595**	**24,393,595**
Total assets		**30,045,998**	**33,653,793**	**154,330,463**	**-**	**25,348,403**	**243,378,656**
Financial liabilities							
Loan Security fund						32,003,770	32,003,770
Related party payables						68,121,215	68,121,215
Borrowings and managed funds	14%		2,840,532	6,940,348	70,511,820	-	80,292,700
Other liabilities						3,519,888	3,519,888
Total financial liabilities		**-**	**2,840,532**	**6,940,348**	**70,511,820**	**103,644,873**	**183,937,573**
Non-Financial liabilities							
Donor funds						660,422	660,422
Total equity		**-**	**-**	**-**	**-**	**58,780,661**	**58,780,661**
Total liabilities and equity		**-**	**2,840,532**	**6,940,348**	**70,511,820**	**163,085,956**	**243,378,656**
Interest sensitive gap		**30,045,998**	**37,975,314**	**130,340,915**	**(70,511,820)**	**(137,743,535)**	**-**

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 +/-1,061,703,412.

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.

d) **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 2019.

Liquidity risk (continued)					
Year ended 31 December 2019	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Above 12 months**	**Total**
Assets	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**
Financial Assets					
Cash and Bank with the central bank	1,880,383	-	-	-	1,880,383
Deposits due from other financial Institutions	12,929,651	5,095,584	12,089,218	-	30,114,453
Loans and advances to customers	30,040,217	42,798,000	114,905,195	187,423	187,930,835
Related party receivable	-	-	2,358,442	-	2,358,442
Total financial assets	**44,850,251**	**47,893,584**	**129,352,855**	**187,423**	**222,284,113**
Non-Financial Assets					
Work in progress	-	110,335	-	-	110,335
Property and equipment	-	-	-	29,429,911	29,429,911
Intangible assets	-	-	-	5,482,294	5,482,294
Other assets	359,859	532,054	837,290	234,587	1,963,790
Total Non-Financial assets	**359,859**	**642,389**	**837,290**	**35,146,792**	**36,986,330**
Total assets	**45,210,110**	**48,535,973**	**130,190,145**	**35,334,215**	**259,270,443**
Financial liabilities					
Loan security fund	5,137,502	6,622,625	22,700,785	-	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	433,117	3,778,000	23,412,422	65,128,429	92,751,968
Tax payable	-	-	740,866	-	740,866
Lease liability	4,487,214	323,476	1,374,724	5,726,067	11,911,481
Other liabilities	2,514,333	181,255	770,303	3,208,504	6,674,395
Total financial liabilities	**24,178,307**	**10,905,356**	**80,929,165**	**74,063,000**	**190,075,828**
Non-Financial liabilities					
Donor funds	-	-	406,548	-	406,548
Deferred tax liability	-	-	1,785,721	-	1,785,721
Total non-financial liabilities	**-**	**-**	**2,192,269**	**-**	**2,192,269**
Total equity	**-**	**-**	**4,544,175**	**62,458,171**	**67,002,346**
Total liabilities and equity	**24,178,307**	**10,905,356**	**87,665,609**	**136,521,171**	**259,270,443**
Liquidity gap	**21,031,803**	**37,630,617**	**42,524,536**	**(101,186,956)**	**-**
Cumulative liquidity gap	**21,031,803**	**58,662,420**	**101,186,956**	**-**	

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2018

Liquidity risk (continued)	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Above 12 months**	**Total**
Year ended 31 December 2018					
Assets	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**	**Ushs '000**
Financial Assets					
Cash and Bank with the central bank	5,982	-	-	-	5,982
Deposits due from other financial Institutions	14,808,048	3,175,893	23,125,455	-	41,109,396
Loans and advances to customers	15,237,950	30,477,900	131,205,007	-	176,920,857
Tax recoverable	-	-	948,826	-	948,826
Total financial assets	**30,051,980**	**33,653,793**	**155,279,288**	**-**	**218,985,061**
Non-Financial Assets					
Work in progress	-	-	-	8,048,185	8,048,185
Property and equipment	-	-	-	12,337,697	12,337,697
Deferred tax asset	-	-	-	1,201,022	1,201,022
Other assets	922,333	342,611	1,541,747	-	2,806,691
Total non-financial assets	**922,333**	**342,611**	**1,541,747**	**21,586,904**	**24,393,595**
Total assets	**30,974,313**	**33,996,404**	**156,821,035**	**21,586,904**	**243,378,656**
Financial liabilities					
Loan Security fund	1,482,641	10,992,582	19,528,548	-	32,003,770
Related party payables	1,956,904	30,000,000	36,164,311	-	68,121,215
Borrowings and managed funds	-	2,840,532	6,940,348	70,511,820	80,292,700
Other liabilities	3,519,887	-	-	-	3,519,888
Total financial liabilities	**6,959,432**	**43,833,114**	**62,633,207**	**70,511,820**	**183,937,573**
Non-Financial liabilities					
Donor funds	-	-	660,422	-	660,422
Total non-financial liabilities	**-**	**-**	**660,422**	**-**	**660,422**
Total equity				58,780,661	58,780,661
Total liabilities and equity	**6,959,432**	**43,833,114**	**63,293,629**	**129,292,481**	**243,378,656**
Liquidity gap	**24,014,881**	**(9,836,710)**	**93,527,406**	**(107,705,577)**	**-**
Cumulative liquidity gap	**24,014,881**	**14,178,171**	**107,705,577**	**-**	**-**

e) **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.

f) **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 2019

	2019			2018		
	Ushs	USD	Total	Ushs	USD	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
ASSETS						
Cash and Bank	14,676,867	133,166	14,810,033	14,800,456	19,555	14,820,011
Deposits due from banks	17,184,803	-	17,184,803	26,295,366	-	26,295,366
Loans and advances to customers	187,930,835	-	187,930,835	184,151,532	-	184,151,532
Related party receivable	2,358,442	-	2,358,442	-	-	-
Other assets	1,963,789	-	1,963,789	2,806,690	-	2,806,690
Tax recoverable	-	-	-	948,826	-	948,826
	224,114,736	**133,166**	**224,247,902**	**229,002,870**	**19,555**	**229,022,425**
Equity and Liabilities						
Loan Security Fund	34,460,912	-	34,460,912	32,003,770	-	32,003,770
Voluntary savings	18,550,762	-	18,550,762	-	-	-
Related party payables	24,985,444	-	24,985,444	68,121,215	-	68,121,215
Borrowings and managed funds	91,608,167	1,143,801	92,751,968	79,560,255	732,445	80,292,700
Other liabilities	6,674,395	-	6,674,395	3,519,889	-	3,519,889
Tax payable	2,369,848	-	2,369,848	-	-	-
	178,649,528	**1,143,801**	**179,793,329**	**183,205,129**	**732,445**	**183,937,574**
Net position	**45,465,208**	**(1,010,635)**	**44,454,573**	**45,797,741**	**(712,890)**	**45,084,851**

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.

	2019 Ushs '000	2018 Ushs '000
	Effect on Profit	Effect on profit
Currency-USD		
+5% US$ Movement	(50,532)	(134,334)
-5% US$ Movement	50,532	134,334

g) **Operational risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Organization's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

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

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

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

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

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

a) **Valuation models**

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments e.g. quoted equity securities. These items are exchange traded positions.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

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 categorized.

At 31 December 2019	Level 1	Level 2	Level 3	Total fair values (Ushs'000)	Total carrying amount (Ushs'000)
Assets					
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	193,730,371
Related party receivables	-	2,358,442	-	2,358,442	2,358,442
Other assets	-	1,963,789	-	1,963,789	1,963,789
Liabilities					
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	-	91,608,167	-	91,608,167	91,608,167
Tax payable	-	2,369,848	-	2,369,848	2,369,848
Other liabilities		6,674,395		6,674,395	8,114,424

At 31 December 2018	Level 1	Level 2	Level 3	Total fair values (Ushs'000)	Total carrying amount (Ushs'000)
Assets					
Cash and cash equivalents	-	14,820,011	-	14,820,011	14,820,011
Short term deposits	-	26,295,366	-	26,295,366	26,295,366
Loans and advances to customers	-	184,151,532	-	184,151,532	184,151,532
Tax recoverable	-	948,826	-	948,826	948,826
Other assets	-	2,806,690	-	2,806,690	2,806,690
Liabilities					
Loan security fund	-	32,003,770	-	32,003,770	14,820,011
Related party payables	-	68,121,215	-	68,121,215	26,295,366
Borrowings and managed funds	-	80,292,700	-	80,292,700	184,151,532
Other liabilities		3,519,889		3,519,889	948,826

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.

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

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

	Liabilities		Equity			
	Other loans and Borrowings	Lease Liabilities	Ordinary Shares	Retained Earnings	Reserves	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Balance as at 31 December 2018	80,292,700	-	43,000,000	15,780,661	-	139,073,361
Changes from financing cash flows	-	-	-	-	-	-
Proceeds from issue of share capital	-	-	-	-	-	-
Proceeds from loans and borrowings	25,560,687	-	-	-	-	25,560,687
Repayment of borrowings	(13,101,419)	-	-	-	-	(13,101,419)
Payment of lease liabilities	-	(1,410,959)	-	-	-	(1,430,959)
Total changes from financing cash flows	**12,459,268**	**(1,410,959)**	**43,000,000**	**15,780,661**	**-**	**11,028,309**
Changes in fair value	-		-	-	-	-
Initial recognition of lease liability	-	13,322,440	-	-	-	13,322,440
Other changes	-	-	-	3,038,218	-	3,038,218
Liability-related	-		-	-	-	-
New finance leases	-	-	-	-	-	-
Capitalized borrowing costs	-	-	-	-	-	-
Interest expense	-	1,702,164	-	-	-	1,702,164
Interest paid	-	(1,702,164)	-	-	-	(1,702,164)
Total liability-related other changes		**3,322,440**	**-**	**3,038,218**	**-**	**16,360,658**
Total equity-related other changes	-	-	-	-	-	-
Balance at 31 December 2019	**92,751,968**	**11,911,481**	**43,000,000**	**18,818,879**	**-**	**166,482,328**

34. REGULATORY CREDIT RISK RESERVE

	2019	2018
	Ushs '000	Ushs '000
As at January	-	-
Transfer from retained earnings	639,292	-
At 31 December	**639,292**	**-**

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

The regulatory credit risk reserve figure is analyzed as follows:

	2019	2018
Provisions as per FIA	**Ushs '000**	**Ushs '000**
Specific provisions	3,079,893	-
General provisions	1,837,202	-
	4,917,095	**-**
Impairment assessment as per IFRS 9		
Stage 1	674,750	-
Stage 2	42,932	-
Stage 3	3,560,121	-
Total	**4,277,803**	**-**
Regulatory credit risk reserve	**639,292**	**-**

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

Credit classification	Nature of provisions	Quantitative criteria	Percentage provisioning
a. Non-Micro loans (Small Enterprise Program (SEP) and staff personal secured loans)			
Standard and current	General provisions	Up to date in payments	1% of outstanding balances net of specific provisions and interest in suspense
Watch		1-89 days in arrears	
Substandard	Specific provisions	90-179 days in arrears	20% of outstanding balance net of cash back security
Doubtful		180-364 days in arrears	50% of outstanding balance net of cash back security
Loss		1 year or more in arrears	100% of outstanding balance net of cash back security
b. Micro loans (Group, ELA, IDP, CHP and agriculture loans)			
Standard and current	General provisions	Up to date in payments	1% of the outstanding performing balance of the total credit facility
Watch		1-29 days in arrears	
Substandard	Specific provisions	30-59 days in arrears	25% of outstanding balance net of cash back security
Doubtful		60-89 days in arrears	50% of outstanding balance net cash back security
Loss		90 days or more in arrears	100% of outstanding balance net of cash back security

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organisation declared the Coronavirus (COVID-19) outbreak a pandemic. Many governments are taking increasingly stringent steps to help contain the spread of the virus, including but not limited to self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking-down" cities/regions or even entire countries. The pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of finalization of the financial statements its effects are subject to significant levels of uncertainty.

The impact of the coronavirus will be closely monitored and assessed for its impact on the business. The Bank has undertaken a variety of measures and implemented contingency plans to mitigate the negative impact of the Corona virus pandemic. The response plan covers operational and credit risk responses to ensure that the Bank will be able to operate and service clients.

There could potentially be adverse effects on the ECL of loans and advances to customers as it could have a direct impact on the key inputs used in the ECL calculations especially macro-economic variables such as Inflation.
Additionally, it has an impact on the banks core business/ability to disburse loans and collect loan payments from the customers.

In light of the above, management has re-assessed the appropriateness of the use of the going concern assumption in the preparation of these financial statements. Based on the assessment performed, management is of the view that the significant doubt associated with the current uncertainties related to the COVID-19 virus currently does not result in a material uncertainty related to such events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. The Board concurs with this assessment.

36. CURRENCY

These financial statements are presented in thousands of Uganda Shillings, which is the entities functional currency.

37. CAPITAL COMMITMENTS

The Bank had no capital commitments as at 31 December 2019 (31 December 2018: Ushs 476 million)

38. CONTINGENT ASSETS

There are several cases in which BRAC Uganda Bank Ltd seeks compensation from borrowers. The total estimated exposure arising from these cases is Ushs 14 million. In the opinion of the Directors, the Bank has high chances of success against the plaintiffs and none of the cases individually or in aggregate would have a significant impact on the Bank's operation. Based on legal advice, the Directors are confident that the Bank shall receive favorable ruling from the outstanding cases.

39. ULTIMATE CONTROLLING PARTY

There is no single controlling party.

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