

BRAC UGANDA BANK LIMITED
ANNUAL REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

BRAC UGANDA BANK LIMITED
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2023

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BRAC UGANDA BANK LIMITED
CORPORATE INFORMATION
FOR YEAR ENDED 31 DECEMBER 2023

DIRECTORS

Mr. Albert Obongonyinge	Chairperson	Ugandan
Mr. Anthony Peter Wainaina Kamau	Member	Kenyan
Ms. Annette Mbabazi Rumanyika Mulira	Member	Ugandan
Mr. Shameran Abed	Member	Bangladeshi
Ms. Florence Nsubuga Nakimbugwe	Member	Ugandan
Ms. Orsolya Farkas	Member (Up to 30 June 2023)	Hungarian
Ms. Susanne Decker	Member	German
Ms. Laurie Spengler	Member (Appointed 9 March 2023)	American
Mr. Seewoosagur Domun	Member (Appointed 1 July 2023)	Mauritian
Mr. Nkosilathi Moyo	Managing Director / CEO	Zimbabwean
Mr. William Mawejje	Executive Director/COO	Ugandan

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:

Max Manzi
P. O. Box 6582
Kampala, Uganda

AUDITOR:

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

BANKERS

Stanbic Bank Uganda Limited Plot 17 Hannington Road Crested Towers P. O. Box 7131 Kampala, Uganda	Bank of Africa Uganda Limited Plot 45 Jinja Road P. O. Box 2750 Kampala, Uganda	Standard Chartered Bank Uganda Ltd Plot 5 Speke Road P. O. Box 7111 Kampala, Uganda
Equity Bank Uganda Limited Plot 390 Muteesa 1 Road P. O. Box 10184 Kampala, Uganda	dfcu Bank Limited Plot 2 Jinja Road, UDB Towers P. O. Box 70 Kampala, Uganda	Centenary Bank Uganda Limited Plot 44-46 Kampala Road P. O. Box 1892 Kampala, Uganda
Post Bank Uganda Limited Plot 4/6 Nkurumah road P. O. Box 7189 Kampala, Uganda	Pride Microfinance Limited (MDI) Victoria Office Park Block B, Bukoto Kampala, Uganda	KCB Bank Uganda Limited Plot 7, Kampala Road P. O. Box 7399 Kampala, Uganda
Citibank Uganda Limited Plot 4 Centre court, Ternan Avenue Nakasero Kampala, Uganda		

BRAC UGANDA BANK LIMITED
DIRECTORS' REPORT
FOR YEAR ENDED 31 DECEMBER 2023

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 2023, which disclose the state of affairs of the Bank.

(A) REGISTRATION

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

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

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

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

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

(B) VISION

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

(C) MISSION

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

(D) OUR VALUES

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

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

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

(E) PRINCIPAL ACTIVITIES

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

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

(F) CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital based on requirements contained in the Financial Institutions Act. As at 31 December 2023, the Bank's regulatory ratios were as follows:

	2023	2022
	Ushs '000	Ushs '000
Tier 1 Capital	34,200,276	33,112,187
Tier 2 Capital	<u>2,443,631</u>	<u>2,045,643</u>
Total tier 1 + tier 2 capital	<u>36,643,907</u>	<u>35,157,830</u>
Total risk weighted assets	<u>219,129,946</u>	<u>189,956,059</u>
Tier 1 capital ratio (Required 12.5%)	<u>15.61%</u>	<u>17.43%</u>
Total capital ratio	<u>16.72%</u>	<u>18.51%</u>

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

(G) COMPOSITION OF DIRECTORS

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

(H) DIRECTORS' BENEFIT

During the year the directors received Ushs 426 million as directors' fees (2022: Ushs 299 million).

(I) CORPORATE GOVERNANCE

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

- The Board of Directors met regularly throughout the period;
- They retain full and effective oversight 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.

(I) CORPORATE GOVERNANCE (CONTINUED)

As at 31 December 2023, the Board of Directors had ten 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	8

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 six board committees to ensure adequate oversight of the Bank's risk management. The committees comprise of: Assets and Liabilities, Risk, Credit, Audit, Human Resource & Nominations 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 2023.

Meeting	Composition	Meetings held
Full Board	10	4
Board Assets and Liabilities Committee	4	4
Board Human Resources and Nominations Committee	4	4
Board Audit Committee	3	4
Board Credit Committee	4	4
Board Risk Committee	3	4
Board Social Performance Management Committee	3	2

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

(J) RISK MANAGEMENT

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

(K) MANAGEMENT STRUCTURE

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

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

(L) RELATED PARTY TRANSACTIONS

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

(M) FUTURE DEVELOPMENT PLANS

The focus for 2024 shall be: Sustainable Growth (Deposits and Loans), People and Culture (Improve staff value proposition and productivity and Risk Management and Digitization (Enhance controls and Scaleup Mobile banking). The specific projects to support the growth strategy include:

1. Pilot and Scale-up of the Digital Field Application and scale up mobile banking to the entire network.
2. Piloting BRAC youth finance and Agri Finance products
3. Implementation of the recommendations of the savings review research
4. Phased merging and relocation of satellites.
5. Review of the SEP loan product to fit with customers requirement.
6. Operationalization of the reviewed organization structure

(N) KEY ACHIEVEMENTS IN 2023

1. Successfully celebrated the BRAC at 50.
2. Silver award from the 2023 Global SME Finance awards for Best Financier for Women Entrepreneurs.
3. Exceeded portfolio outstanding target at Ugx191 billion against a target of Ugx176 billion.
4. Successfully participated in the savings challenge from the BOU and UBA.
5. Disbursed Ugx427 billion loans and this was the highest disbursed amount in the history of bank.

(O) SOLVENCY

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

(P) GENDER PARITY

As of 31 December 2023, the Bank had 1,809 staff (2022: 1,944). The female staff were 87% (2022: 82%).

(Q) WELFARE OF EMPLOYEES

Relationship between management and employees

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

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

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

Training

Employee empowerment strategies through capacity building, learning interventions remain pertinent and a core function and a driver of the bank's productivity, staff retention and a yard stick that measures levels of staff retention and engagement levels. A number of trainings were conducted including; BRAC Philosophy and Culture, Credit Cycle, Digital Financial Services, Operational Risk and Fraud, Business Growth, Local market Planning, Women in Leadership, Internal Capital Adequacy Assessment Process (ICAAP), induction of credit Officers.

Medical assistance

The Bank provides medical insurance for all the staff and plans to continue adding employees' dependents gradually.

(Q) WELFARE OF EMPLOYEES (CONTINUED)

Retirement benefits

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

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

Long Service Award

An employee will be given a Long Service Award for the first five (5) consecutive years' service and thereafter every five years' service completed with BRAC Uganda Bank Ltd. The Long-term service award is categorised as a defined contribution plan.

Provident fund has been approved by the board and the fund shall be implemented effective 1st April 2024. The Bank will contribute 4.2% of the employees' gross salary and the employee will contribute 3%.

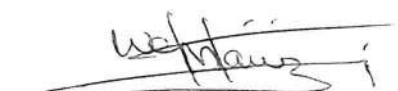
(R) AUDITOR

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

(S) APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the directors at a meeting held on 14 March 2024.

By order of the Board

Signed: 

SECRETARY

BRAC UGANDA BANK LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR YEAR ENDED 31 DECEMBER 2023

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

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

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

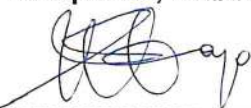
The auditor is responsible for reporting on whether the financial statements present fairly, in all material respects, the financial position of BRAC Uganda Bank Limited as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board and in the manner required by the Companies Act, 2012, the Financial Institutions Act, 2004, as amended by the Financial Institutions (Amendment) Act, 2016 and Financial Institutions Regulations, of Uganda.

Approval of the financial statements

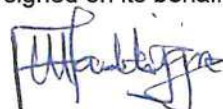
The financial statements of BRAC Uganda Bank Limited, as identified in the first paragraph, were approved by the Board of Directors on 14 March 2024, and were signed on its behalf by:



.....
Chairperson, Board of Directors



.....
Managing Director



.....
Director



.....
Company Secretary

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of BRAC Uganda Bank Limited (the "Bank") set out on pages 14 to 83, which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BRAC Uganda Bank Limited as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board and the requirements of the Companies Act, 2012, the Financial Institutions Act, 2004, as amended by the Financial Institutions (Amendment) Act, 2016 and the Financial Institutions Regulations of Uganda.

Basis for opinion

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

Key audit matters

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

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

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matter	How the matter was addressed in the audit
Expected credit loss on loans and advances to customers As disclosed in note 15 to the financial statements, the Bank had Expected Credit Losses of Ushs 3.42 billion as of 31 December 2023 (2022: Ushs 3.54 billion). The expected credit losses are based on a forward-looking approach that recognizes impairment loss allowances in accordance with IFRS 9 Financial Instruments. The estimation of expected credit losses requires the Bank to make significant judgements in the consideration of the following variables: - Allocation of loans to customers to stages 1, 2 and 3 in accordance with IFRS 9 based on: - Credit exposures for which there has been a significant increase in credit risk since initial recognition, and for which a loss allowance is recognised over the remaining life of the exposure (lifetime ECL); - Credit exposures for which there has been no significant increase in credit risk, and for which a loss allowance is recognised for default events that are possible within the next 12-months (12-month ECL). - Stratification of assets under different credit portfolio on the basis of the associated credit risk. - Assessment of the Probability of Default (PD) and the Loss Given Default (LGD). - The application of historical and forward-looking information, including macro-economic factors in the assessment of the PD. - Assessment and forecast of expected future cash flows from impaired (stage 3) loans and advances to customers and assessment of the financial condition of the counterparty, estimated recoverability and collateral realization. - Application of additional overlay adjustments to reflect factors that are not considered in the applied expected credit loss models. Due to the significance of the amounts and significant judgements and related estimation uncertainty involved, the assessment of ECLs has been considered a key audit matter. The complexity of these estimates require management to prepare adequate disclosures to explain the key judgments and the key inputs into the ECL computations. The accounting policies and related disclosures are in notes 3(a), 3(p), 15 and 32.	
Our audit procedures included, but were not limited to, the following: - Assessed the accounting policies for compliance with IFRS 9 requirements; - Evaluated the ECL models including whether the assumptions applied, and the functioning and application of the models were in accordance with IFRS 9; - Evaluated the allocation of loans and advances to customers to stages 1, 2 and 3 for compliance with IFRS 9 basing on the performance of the loans and the available information; - Evaluated the assumptions made to factor expected future cash flows into the ECL computations, considering market conditions, and the post-reporting date performance of the loan facilities; - Evaluated the reliability of data sources, including collateral valuation, used in the ECL calculations. This included reviewing a sample of loan files to check, where appropriate, if the inputs agreed to the supporting documentation. - Assessed whether disclosures made in the financial statements agreed to the audited balances and information, and whether they were in accordance with IFRS 9.	

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Other information

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

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board and the requirements of the Companies Act, 2012, the Financial Institutions Act, 2004, as amended by the Financial Institutions (Amendment) Act, 2016 and the Financial Institutions Regulations of Uganda, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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


Ernst & Young
Certified Public Accountants of Uganda
Kampala, Uganda


Freda Kaheru Agaba
Partner

29 April 2024

BRAC UGANDA BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 31 DECEMBER 2023

		2023	2022
	Note	Ushs '000	Ushs '000
Interest income on loans and advances	5	89,092,804	78,243,665
Other interest income	6	3,456,104	4,824,593
Interest expense on borrowings	7(a)	(10,931,472)	(9,613,082)
Other finance costs	7(b)	(7,863,060)	(7,081,360)
Net income from service charge		<u>73,754,376</u>	<u>66,373,816</u>
Membership fees and other charges	8	8,275,392	8,514,579
Net finance income	9	61,513	(507,528)
Net trading income		<u>82,091,281</u>	<u>74,380,867</u>
Expected credit loss on financial assets	16	(3,790,445)	(83,754)
Operating income after impairment charges		<u>78,300,836</u>	<u>74,297,113</u>
Grant income	27(e)	3,178,167	1,986,938
Staff costs	10	(43,080,415)	(39,700,257)
Other operating expenses	11	(28,034,028)	(27,398,607)
Depreciation of property and equipment	19	(3,982,610)	(4,164,571)
Amortization of software	21	(1,127,007)	(875,255)
Depreciation of right of use assets	22(a)	(2,510,879)	(2,372,723)
		<u>(78,734,939)</u>	<u>(74,511,413)</u>
Profit before tax		<u>2,744,064</u>	<u>1,772,638</u>
Income tax charge	12(a)	(1,744,271)	(722,913)
Net profit for the year		<u>999,793</u>	<u>1,049,725</u>
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		<u>999,793</u>	<u>1,049,725</u>

BRAC UGANDA BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT ENDED 31 DECEMBER 2023

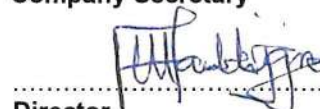
		2023	2022
	Note	Ushs '000	Ushs '000
ASSETS			
Cash and balances with the central bank	13	1,678,364	2,409,526
Deposits and balances due from banks	14	37,813,574	67,810,646
Loans and advances to customers	15	184,179,823	149,736,356
Other assets	18	3,908,873	3,241,776
Related party receivable	17(a)	4,947,764	2,018,278
Income tax recoverable	12(c)	41,911	41,911
Deferred tax asset	12(b)	7,445,802	8,797,321
Property and equipment	19	6,932,904	9,393,084
Right of use of asset	22(a)	8,474,810	9,757,322
Capital work in progress	20	3,041,420	2,260,635
Intangible assets	21	7,107,659	7,454,612
Total assets		<u>265,572,904</u>	<u>262,921,467</u>
LIABILITIES AND EQUITY			
Liabilities			
Loan security fund	23	32,417,848	30,757,363
Deposits from customers	24	76,119,464	64,101,856
Related party payables	17(b)	4,967,514	2,860,208
Borrowings	25	74,672,267	89,365,377
Other liabilities	26	8,827,917	8,001,287
Donor funds	27	5,183,174	4,509,928
Lease liabilities	22(d)	10,473,416	11,413,937
Total liabilities		<u>212,661,600</u>	<u>211,009,956</u>
Equity			
Share capital	28	54,421,880	54,421,880
Accumulated losses	28	(2,327,249)	(3,092,313)
Regulatory credit risk reserve	35	816,673	581,944
Total equity		<u>52,911,304</u>	<u>51,911,511</u>
Total liabilities and equity		<u>265,572,904</u>	<u>262,921,467</u>

The financial statements were approved and authorized for issue by the Board of Directors on 14 March 2024 and were signed on its behalf by:


.....
Managing Director


.....
Chairperson, Board of Directors


.....
Company Secretary


.....
Director

BRAC UGANDA BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital	Accumulated losses	Regulatory credit risk reserve	Total equity
	Ushs '000 (Note 28)	Ushs '000 (Note 28)	Ushs'000 (Note 35)	Ushs'000
At 1 January 2022	54,421,880	(3,560,094)	-	50,861,786
Transfer to regulatory credit risk reserve	-	(581,944)	581,944	-
Total comprehensive income for the year	-	1,049,725	-	1,049,725
At 31 December 2022	<u>54,421,880</u>	<u>(3,092,313)</u>	<u>581,944</u>	<u>51,911,511</u>
At 1 January 2023	54,421,880	(3,092,313)	581,944	51,911,511
Transfer to regulatory credit risk reserve	-	(234,729)	234,729	-
Total comprehensive income for the year	-	999,793	-	999,793
At 31 December 2023	<u>54,421,880</u>	<u>(2,327,249)</u>	<u>816,673</u>	<u>52,911,304</u>

BRAC UGANDA BANK LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 Ushs '000	2022 Ushs '000
Operating activities			
Net cash flows from/(used in) operating activities	29	<u>15,114,064</u>	<u>(17,617,916)</u>
Investing activities			
Acquisition of property and equipment	19	(1,097,069)	(893,576)
Acquisition of software	21	(166,594)	(2,124)
Proceeds from disposal of assets		88,787	67,223
Investment in work in progress	20	<u>(1,993,894)</u>	<u>(2,476,702)</u>
Net cash flows used in investing activities		<u>(3,168,770)</u>	<u>(3,305,179)</u>
Financing activities			
Receipts from borrowings and managed funds during the year	25(b)	10,658,750	71,629,471
Loan repayments during the year	25(b)	(24,784,102)	(42,545,557)
Principal repayment of lease liabilities	22(c)	(2,312,847)	(2,235,837)
Loan arrangement fees	25(b)	(202,568)	(237,523)
Donor funds transfer to BRAC NGO	27(d)	-	(356,379)
Receipts of donor funds	27(b) & (c)	<u>4,029,496</u>	<u>2,631,197</u>
Net cash flows (used in)/ from financing activities		<u>(12,611,271)</u>	<u>28,885,372</u>
Net (decrease)/ increase in cash and cash equivalents		<u>(665,977)</u>	<u>7,962,277</u>
Cash and cash equivalents at 1 January		22,442,435	15,008,845
Net (decrease)/ increase in cash and cash equivalents		(665,977)	7,962,277
Effects of movement in exchange rates		<u>(149,884)</u>	<u>(528,687)</u>
Cash and cash equivalents at 31 December	30	<u>21,626,574</u>	<u>22,442,435</u>

Additional information relating to cash flows from interest paid and income tax:

Income taxes paid	12(c)	(1,005,731)	(22,170)
Interest paid on borrowings	25(b)	(11,296,662)	(8,387,671)
Interest paid – leases	22(c)	(1,356,671)	(1,283,960)
Interest received		<u>92,477,092</u>	<u>83,068,258</u>

1. BANK INFORMATION

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

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

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

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

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

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

2. BASIS OF ACCOUNTING

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

(i) Basis of measurement

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

(ii) Functional and presentation currency

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

3. MATERAIL ACCOUNTING POLICY INFORMATION

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

(i) Impairment

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

The Bank regularly reviews its loan portfolio and other assets and makes judgments in determining whether expected credit losses should be recognized. The methodology and assumptions used for estimating both the expected credit losses and forward-looking factors are reviewed regularly to reduce any differences between loss estimates and actual loss experience. (Refer to notes 15 and 32 for further details).

(ii) Provisions and contingent liabilities

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

(iii) Deferred tax

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

The Bank has Ushs 25.1 billion (2022: Ushs 32.4 billion) of tax losses carried forward. These losses relate to operational losses occasioned by the impact of the COVID 19 pandemic on the Bank operations in 2020.

With the fading of the COVID 19 effects from the economy, the directors are optimistic that chances of the 2020 events leading to the loss position reoccurring are minimal. Effective 1 July 2023, the losses can be carried forward for seven years, following which only 50% of the losses is allowed as a deduction. Therefore, in its assessment, the Bank has the ability to generate taxable profits and utilize the deferred tax asset in the foreseeable future. Further details on taxes are disclosed in Note 12.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

a) Use of estimates and judgment (Continued)

(iv) Leases

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

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

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

(v) Useful lives of property and equipment

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

b) Leases

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

(i) With the Bank as lessee

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

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

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents lease liabilities in 'Lease liabilities' in the statement of financial position.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

b) Leases (Continued)

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

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

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

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

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

During the year, the bank had a short-term lease relating to Kyegegwa branch with a lease term of 3 months and a total rent amount of Ushs 1.5 million (2022: Ushs 1.9 million (Bweyale branch)).

(iii) Extension options

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

(iv) Lease terminations

On termination of a lease contract, the right of use asset and the lease liability are derecognized from the statement of financial position and the balancing figure recorded in the statement of comprehensive income as either a gain or loss on termination.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

c) Property and equipment (Continued)

ii) Depreciation

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

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

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

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

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

g) Provisions and other liabilities

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

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

h) Taxation

Income tax

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

Deferred tax

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

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

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

i) Revenue recognition

Revenue is recognized on an accrual basis.

(i) Interest income on loans and advances

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

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

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

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

(ii) Membership fees and Other charges

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

i) Revenue recognition (Continued)

(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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

m) Employee benefits

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

For details on retirement benefits and long service award, refer to note Q - Welfare of employees under the directors' report.

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

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.

Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

All other financial assets are classified as measured at FVTPL.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

p) Financial assets and financial liabilities (continued)

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

Business model assessment

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

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

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.

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).

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

p) Financial assets and financial liabilities (continued)

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.

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

Financial assets

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

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

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

p) Financial assets and financial liabilities (continued)

Financial liabilities

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

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

Derecognition other than for substantial modification

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

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

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

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

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

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

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

p) Financial assets and financial liabilities (Continued)

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

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

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

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.

Impairment

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

- financial assets that are debt instruments.
- 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

p) Financial assets and financial liabilities (Continued)

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 on which credit risk has not increased significantly since their initial recognition

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

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

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

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

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

Restructured financial assets

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

p) Financial assets and financial liabilities (continued)

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. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

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

q) New and amended standards and interpretations

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

q) New and amended standards and interpretations (Continued)

Effective for annual periods beginning on or after 1 January 2023

- IFRS 17 Insurance Contracts
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates - Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
- International Tax Reform – Pillar Two Model Rules - Amendments to IAS 12

The above standards did not have an impact on the Bank's financial statements

New and revised International Financial Reporting Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1 (Effective for annual periods on or after 1 January 2024)
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 (Effective for annual periods on or after 1 January 2024)
- Disclosures: Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7 (Effective for annual periods on or after 1 January 2024)
- Lack of exchangeability – Amendments to IAS 21 (Effective for annual periods on or after 1 January 2025)
- Sale or Contribution of Assets between an investor and its Associate or Joint Venture-Amendments to IFRS 10 and IAS 28 (Effective date postponed indefinitely pending the outcome of IASB's research project on the equity method of accounting)

4. GOING CONCERN

As at 31 December 2023, the Bank was not compliant with debt covenants: Citibank, Bank of Africa and Tripple Jump. These had a total combined outstanding amount of Ushs 7,732,034,000, as at year-end. The consequence for the non-compliance is that the Bank may be compelled to pay the outstanding amounts on demand thereby resulting into contraction of the Bank's cash reserves which may further impair the Bank's ability to grow its loan book, meet its operational requirements and /or comply with the Bank of Uganda liquidity and leverage ratios.

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

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

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

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

5. INTEREST INCOME ON LOANS AND ADVANCES

Interest income calculated using the effective interest method.

	2023	2022
	Ushs '000	Ushs '000
Group loans	61,822,463	55,884,670
Small enterprises program	22,963,182	18,713,469
Agriculture group loans	-	649
Agriculture line of credit	132	11,001
Empowerment and Livelihood of Adolescents (ELA)	-	3,856
Staff loan	348,695	282,803
Community Health Promoters (CHP)	4	393
Loan appraisal fees	3,958,328	3,346,824
	<u>89,092,804</u>	<u>78,243,665</u>

6. OTHER INTEREST INCOME

Other interest income calculated using the effective interest method

	2023	2022
	Ushs '000	Ushs '000
Interest income on current accounts	612,300	498,682
Interest income from wallet to bank	20,574	3,572
Interest income on deposits with banks	<u>2,823,230</u>	<u>4,322,339</u>
	<u>3,456,104</u>	<u>4,824,593</u>

7. (a) INTEREST EXPENSE ON BORROWINGS

Interest expense calculated using the effective interest method

	2023	2022
Lender	Ushs '000	Ushs '000
Bank of Africa	864,115	1,162,806
Oiko Credit	3,114,630	1,454,795
Kenya Commercial Bank (KCB)	1,292,203	1,092,907
FMO Entrepreneurial Development Bank	-	308,148
Triodos Investment Management (TIM)	-	297,254
Global Partnership (GP)	-	154,883
aBi Trust	2,812,185	1,872,484
Stichting Oxfam Novib	1,276,012	713,169
BRAC International	26,609	80,704
Citibank Uganda	761,495	1,062,222
Uganda Energy Credit Capitalization Company (UECCC)	-	124,383
SOLUTI	588,603	843,048
EADB	195,620	446,279
	<u>10,931,472</u>	<u>9,613,082</u>

7. (b) OTHER FINANCE COSTS

Other finance costs calculated using the effective interest method

	2023	2022
	Ushs '000	Ushs '000
Service charge	1,202,679	363,853
Interest expense on voluntary savings	5,161,322	5,100,621
Interest on lease liability (note 22(b))	1,499,059	1,602,565
Withholding tax on interest	-	14,321
	<u>7,863,060</u>	<u>7,081,360</u>

The service charge relates to loan arrangement fees for borrowings.

8. MEMBERSHIP FEES AND OTHER CHARGES

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

	2023	2022
	Ushs '000	Ushs '000
Membership fee	322,584	238,637
Loan application fee	212,090	170,970
Other operating income	1,153,526	2,065,292
Gain on disposal	79,147	55,872
Recharge intercompany costs	-	205,364
Ledger fees	4,035,504	2,747,997
Other fees from banking operations	107,397	69,540
Administrative fee from credit life insurance	336,850	263,370
Income from written off loans	1,979,021	2,661,687
Sale of passbooks	49,273	35,850
	<u>8,275,392</u>	<u>8,514,579</u>

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

Performance obligations

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Category A	These are transactional fees based on revenue that mainly comprise of but not limited to ledger fees.	▪ Enforceable arrangement with customer exists. ▪ Performance obligation (PO) – the Bank provides account transaction services ▪ Transaction price – monthly fees in line with the contractual agreement. ▪ Allocation of price to PO – single performance obligation, no allocation necessary. ▪ PO satisfied – Revenue is currently recognised at the end of the month, for the services provided during that month (operational efficiency).
Category B	These are membership fees charged to customers.	▪ Enforceable arrangement with customer exists. ▪ Performance obligation (PO) – the Bank admits the client as a member eligible for a loan. ▪ Transaction price – annual fees in line with the contractual agreement. ▪ Allocation of price to PO – single performance obligation, no allocation necessary. ▪ PO satisfied – At a point in time when the individual has been admitted as a member.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

8. MEMBERSHIP FEES AND OTHER CHARGES (CONTINUED)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Category C	These are transactional fees based on revenue that comprise of sale of pass books and other fees from banking operations.	▪ Enforceable arrangement with customer exists. ▪ Performance obligation (PO) – the Bank sells pass books to customers and charges fees for account transactions. ▪ Transaction price – fee charged in terms of the arrangement with customer at point of transaction ▪ Allocation of price to PO – single performance obligation, no allocation necessary. ▪ PO satisfied – At a point in time when the transaction is processed.

9. NET FINANCE INCOME

	2023 Ushs '000	2022 Ushs '000
Realized foreign currency gain	21,102	117,652
Unrealized foreign currency gain	533,786	360,447
Realized foreign currency loss	(91,302)	(96,493)
Unrealized foreign currency loss	<u>(402,073)</u>	<u>(889,134)</u>
	<u>61,513</u>	<u>(507,528)</u>

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

10. STAFF COSTS

	2023 Ushs '000	2022 Ushs '000
Salaries	30,434,059	28,789,201
Incentives	173,370	-
Special occasion	2,342,869	2,159,344
Contribution to defined contribution plan (NSSF - Employer)	3,314,599	3,104,777
Insurance for staff	1,844,114	1,748,949
Staff meals	2,503,585	2,599,681
Recruitment and relocation expense	255,439	388,344
Overtime	22,638	11,452
Group life insurance	61,914	72,391
Payment in lieu of notices	117,901	48,986
Provident fund	50,390	44,808
Staff training and development	730,251	491,615
Staff loan benefit	118,519	7,091
Leave days accrual	154,100	132,365
Home leave expense	77,736	101,253
Long service award expense	<u>878,931</u>	<u>-</u>
	<u>43,080,415</u>	<u>39,700,257</u>

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

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

11. OTHER OPERATING EXPENSES

	2023	2022
	Ushs '000	Ushs '000
Occupancy expenses (11a)	5,593,401	5,430,168
Publication, advertising, and marketing costs	225,331	579,686
Travel and transportation	8,363,931	7,529,887
Maintenance and general expenses	1,240,917	1,038,402
Loss on termination of lease (Note 22(b))	1,571	-
Printing and office stationery	1,796,986	1,850,303
Insurance for assets	46,899	52,153
Insurance for cash	39,869	56,229
Provision for WHT and insurance receivable	190,645	700,771
Software development and maintenance	2,526,251	2,581,829
Consultancy and legal services	1,207,439	711,022
Office equipment	302,624	291,568
Audit fees	226,769	209,980
Other tax expenses/licenses/penalties	-	40,342
Digitization costs	968,249	116,265
Provision for donations	144,429	93,296
Loan recovery costs	60,747	91,164
Governance/ board costs	585,970	464,619
Management fees	2,983,883	4,049,003
Communication costs	1,528,117	1,511,920
	<u>28,034,028</u>	<u>27,398,607</u>

(a) Occupancy expenses are analyzed as follows:

Short term lease expenses	1,500	1,966
Utilities	881,580	809,794
Office cleaning	456,636	424,095
Security	<u>4,253,685</u>	<u>4,194,313</u>
	<u>5,593,401</u>	<u>5,430,168</u>

12. TAXATION

(a) Income tax charge

	2023	2022
	Ushs '000	Ushs '000
Rental income tax	-	61,609
Under provision for current tax in prior years	392,752	-
Under provision of deferred tax in prior years (note 12 (b))	481,370	-
Deferred tax charge (note 12 (b))	<u>870,149</u>	<u>661,304</u>
Income tax charge	<u>1,744,271</u>	<u>722,913</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

12. TAXATION (CONTINUED)

(a) Income tax charge (Continued)

The corporation tax rate is set at 30% (2022: 30%) of the profit/(loss) for the year as adjusted for tax purposes in accordance with the Income Tax Act Cap 340.

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

	2023	2022
	Ushs '000	Ushs '000
Profit before taxation	2,744,064	1,772,638
Tax calculated at 30% (2022:30%)	823,219	531,791
Tax effect of:		
Non-deductible expense*	46,929	129,513
Rental income tax**	-	61,609
Prior year under provision of current tax	392,753	-
Prior year over provision of deferred tax	481,370	-
	<u>1,744,271</u>	<u>722,913</u>

*Non-deductible expense include expenses relating to group life insurance for employees, other promotional costs and work permit expenses.

**Rental income tax is nil as the Bank ceased arrangements for subletting following engagements with BOU.

12 (b) Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using the principal tax rate of 30% (2022:30%). The net deferred tax assets as at year-end was attributed to the following items: -

31 December 2023

	2022	Under provision of deferred tax in prior years	Movement	2023
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Property and equipment	2,060,745	-	(705,467)	1,355,278
Leases	(496,984)	-	(102,598)	(599,582)
Impairment losses on Loans and Advances	(274,039)	-	(115,120)	(389,159)
Other provisions*	(277,459)	-	(48,672)	(326,131)
Unrealized foreign exchange loss	(83,401)	(75,205)	198,120	39,514
Income tax losses carried forward	<u>(9,726,183)</u>	<u>556,575</u>	<u>1,643,886</u>	<u>(7,525,722)</u>
Net deferred tax asset @ 30%	<u>(8,797,321)</u>	<u>481,370</u>	<u>870,149</u>	<u>(7,445,802)</u>

*Other provisions include loan modification gain, IFRS 9 provisions on cash and fixed deposits.

31 December 2022

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

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

12. TAXATION (CONTINUED)

(c) Income tax recoverable

	2023	2022
	Ushs '000	Ushs '000
At 1 January	(41,911)	(81,350)
Charge for the period	-	61,609
Under provisions in previous periods	392,752	-
Corporation tax paid during the year	(392,752)	-
WHT paid during the year	-	(22,170)
At 31 December	<u>(41,911)</u>	<u>(41,911)</u>

13 CASH AND BALANCES WITH THE CENTRAL BANK

	2023	2022
	Ushs '000	Ushs '000
Cash in hand	1,678,364	1,409,526
Balances with the central bank	-	1,000,000
	<u>1,678,364</u>	<u>2,409,526</u>

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

14. DEPOSITS AND BALANCES DUE FROM BANKS

(a) Deposits with other banks

	2023	2022
	Ushs '000	Ushs '000
Standard Chartered Bank	115,533	394,953
Bank of Africa	13,710,966	13,240,610
Centenary Bank	429,743	388,672
Equity Bank	67,682	100,094
DFCU Bank	18,657	8,820
Post Bank	127,714	176,145
Pride Microfinance Ltd	18,677	451
Stanbic Bank	5,382,184	4,656,254
Citibank	78,398	11,757
Kenya Commercial Bank	134,363	1,191,436
Deposits with other banks	<u>20,083,917</u>	<u>20,169,192</u>
ECL allowance	<u>(135,707)</u>	<u>(136,283)</u>
Net deposits with other banks	<u>19,948,210</u>	<u>20,032,909</u>

(b) Placements with other banking Institutions

	2023	2022
	Ushs '000	Ushs '000
Mercantile Bank	3,975,446	32,905,128
Pride Microfinance	5,067,021	6,264,126
Equity Bank	-	3,582,438
Opportunity Bank	8,944,434	5,351,075
Total	<u>17,986,901</u>	<u>48,102,767</u>
ECL allowance	<u>(121,537)</u>	<u>(325,030)</u>
Net placements with other banking institutions	<u>17,865,364</u>	<u>47,777,737</u>
	<u>37,813,574</u>	<u>67,810,646</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

14. DEPOSITS AND BALANCES DUE FROM BANKS (Continued)

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

	2023	2022
	Ushs '000	Ushs '000
Within 3 months	-	15,153,599
After 3 months	<u>17,865,364</u>	<u>32,624,138</u>
	<u>17,865,364</u>	<u>47,777,737</u>

The weighted average effective interest rates on deposits due from the banks were 11% (2022:11%) per annum. The carrying book values of the deposits with the banks approximate their fair values.

(c) Movement in Expected Credit Losses	Bank balances	Placements
	Ushs '000	Ushs '000
At 1 January 2022	83,967	163,732
Increase for the year (Note 16)	<u>52,316</u>	<u>161,298</u>
At 31 December 2022	<u>136,283</u>	<u>325,030</u>
Decrease during the year (Note 16)	<u>(576)</u>	<u>(203,493)</u>
At 31 December 2023	<u>135,707</u>	<u>121,537</u>

15. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances

	2023	2022
	Ushs '000	Ushs '000
Microfinance Group loans	122,438,960	107,461,966
Small Enterprises Program	64,697,354	50,588,218
Agriculture line of credit	-	5,188
Staff loan	1,981,951	2,322,760
CHP and ELA loans	-	26,905
Interest receivable	5,719,850	6,520,339
Suspended interest	(1,131,896)	(1,259,973)
Interest write-off	<u>(4,349,263)</u>	<u>(11,842,607)</u>
Gross loans and advances	<u>189,356,956</u>	<u>153,822,796</u>
Loan modifications	-	781,180
Deferred loan fees	(1,591,385)	(1,301,002)
Deferred staff expense	<u>(164,048)</u>	<u>(24,022)</u>
	<u>187,601,523</u>	<u>153,278,952</u>
Expected credit losses		
Stage 1	(138,626)	(89,368)
Stage 2	(28,706)	(16,238)
Stage 3	<u>(3,254,368)</u>	<u>(3,436,990)</u>
	<u>(3,421,700)</u>	<u>(3,542,596)</u>
Net loans and advances to customers	<u>184,179,823</u>	<u>149,736,356</u>

The ECLs generally decreased following the diminishing impact of COVID-19 on the economy and the bank's loan portfolio and an improvement in recoveries.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The weighted average effective interest rate on loans and advances to customers was 52.78% (2022: 51.14%) per annum. Loans and advances to customers are carried at amortized cost. The carrying values of the loans and advances to customers approximate their fair values.

	2023	2022
Highest loan amount (Ushs)	100,000,000	100,000,000
Lowest loan amount (Ushs)	100,000	100,000
Average loan term (weeks)	40	40
Total number of borrowers	<u>178,188</u>	<u>157,667</u>

The Bank did not advance any facilities exceeding 25% (2022: 25%) of core capital to a single person or group of related persons during the year.

(b) Expected credit loss on loans and advances

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

	2023	2022
	Ushs '000	Ushs '000
At 1 January	3,542,596	12,963,447
Charge/(credit) for the year	3,213,334	(565,010)
Loan write-off	<u>(3,334,230)</u>	<u>(8,855,841)</u>
At 31 December	<u>3,421,700</u>	<u>3,542,596</u>
	2023	2022
	Ushs '000	Ushs '000
Charge to profit or loss		
Net increase/(decrease) in provisions	3,213,334	(565,010)
Modification loss on loans and advances	<u>781,180</u>	<u>435,150</u>
Net charge/(credit) to profit or loss (Note 16)	<u>3,994,514</u>	<u>(129,860)</u>

There were no loan restructures made during the year however an amount of Ushs 781 million has been recognised in the statement of comprehensive income as a result of unwinding of the modification.

(c) Sectoral analysis of loans and advances to customers

	2023	2022
	Ushs '000	Ushs '000
Trade	119,573,927	98,147,847
Agriculture	35,903,344	28,699,203
Business services	8,090,666	7,828,629
Manufacturing	9,552,035	7,039,811
Community, social & other services	6,083,067	4,808,206
Building, construction, and real estate	6,890,091	5,115,794
Personal loans and household loans	1,009,914	434,386
Transport and communication	1,166,546	824,129
Mining and quarrying	814,924	671,289
Electricity and water	211,690	39,882
Other services	<u>60,752</u>	<u>213,620</u>
	<u>189,356,956</u>	<u>153,822,796</u>

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.

15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

Loans and advances are categorized into the following grades:

Micro loans

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

Non-micro loans

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

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

	2023	2022
	Ushs '000	Ushs '000
Loans and advances (note 15 b)	3,994,514	(129,860)
Bank balances (note 14 c)	(576)	52,316
Placements (note 14 c)	(203,493)	161,298
	<u>3,790,445</u>	<u>83,754</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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17. RELATED PARTY DISCLOSURES

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

(a) RELATED PARTY RECEIVABLES

	2023	2022
	Ushs '000	Ushs '000
BRAC International Holdings BV	3,716,099	670,169
BRAC Uganda NGO	1,223,494	1,348,109
BRAC Liberia NGO	<u>8,171</u>	<u>-</u>
	<u>4,947,764</u>	<u>2,018,278</u>

(b) RELATED PARTY PAYABLES

	2023	2022
	Ushs '000	Ushs '000
BRAC International Holdings BV	4,918,279	2,841,926
BRAC Bangladesh	44,227	18,282
Payable to BRAC International- Stichting	<u>5,008</u>	<u>-</u>
	<u>4,967,514</u>	<u>2,860,208</u>

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

Related party receivables from BRAC Uganda NGO mainly relate to shared services with the entity, the expenses are met by the Bank and reimbursed by BRAC NGO. The payable to BRAC International BV holdings mainly relates to management fees for the services provided by BRAC International. The payable to BRAC Bangladesh relates to the expatriates' staff provident fund, the related party receivable from BRAC Liberia NGO relates to expenses met by the bank on behalf of the entity, the receivable from BRAC International Holdings BV mainly relates to prior periods tax arrears.

(c) OTHER RELATED PARTY TRANSACTIONS DURING THE YEAR

i) Loans and advances to related party

	2023	2022
	Ushs '000	Ushs '000
To key management staff	<u>-</u>	<u>9,315</u>
	<u>-</u>	<u>9,315</u>
Interest earned on the loans	<u>-</u>	<u>2</u>

ii) Key management compensation

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

	2023	2022
	Ushs '000	Ushs '000
Salaries and other short-term compensation	<u>2,910,269</u>	<u>3,002,218</u>

iii) Directors' remuneration

Fees for services of directors	<u>426,187</u>	<u>299,389</u>
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At 31 December 2023, there were no loans to directors and companies controlled by directors or their closely connected persons (2022: Ushs Nil).

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

18. OTHER ASSETS

	2023	2022
	Ushs '000	Ushs '000
Financial assets		
Employee receivables (work related advances)*	39,504	134,616
Sundry debtors**	<u>1,020,542</u>	<u>245,000</u>
	<u>1,060,046</u>	<u>379,616</u>
Non-financial assets		
Advance to suppliers	861,543	1,930,065
Prepaid insurance	2,570,829	1,446,684
WHT receivable	3,475	134,176
Donor grants receivable	86,004	118,335
Provision for WHT and insurance receivable	(957,745)	(767,100)
Employee receivables (PAYE related)	227,132	-
Deferred staff expense (Arising from fair value of staff loans) ¹	<u>57,589</u>	<u>-</u>
	<u>2,848,827</u>	<u>2,862,160</u>
Total	<u>3,908,873</u>	<u>3,241,776</u>

¹Deferred staff expense relates to staff loans whose fair value is determined on an annual basis using the mark to market approach to ascertain the changes in the market lending rate and the nominal interest rate on loans.

**Sundry debtors mainly relate to receivables from mobile banking platforms such as MTN and Airtel. These balances are short term in nature with credit term of 1-30 days.

*Employee receivables (work related advances) have a credit term of 1-30 days.

19. PROPERTY AND EQUIPMENT

	Furniture	Equipment	Motor vehicles	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Cost				
At 1 January 2022	10,476,512	14,833,665	601,318	25,911,495
Additions	300,005	593,571	-	893,576
Capitalization of capital work in progress	1,252	300,825	-	302,077
Disposal	(879)	(37,180)	(44,000)	(82,059)
At 31 December 2022	<u>10,776,890</u>	<u>15,690,881</u>	<u>557,318</u>	<u>27,025,089</u>
Additions	188,299	855,656	53,114	1,097,069
Capitalization of capital work in progress	25,944	80,298	324,967	431,209
Disposal	-	(173,172)	(166,512)	(339,684)
At 31 December 2023	<u>10,991,133</u>	<u>16,453,663</u>	<u>768,887</u>	<u>28,213,683</u>
Depreciation				
At 1 January 2022	4,797,145	8,230,522	510,475	13,538,142
Charge for the year	1,223,106	2,885,105	56,360	4,164,571
Accumulated depreciation on disposal	(766)	(25,942)	(44,000)	(70,708)
At 31 December 2022	<u>6,019,485</u>	<u>11,089,685</u>	<u>522,835</u>	<u>17,632,005</u>
Charge for the year	1,248,057	2,639,024	95,529	3,982,610
Accumulated depreciation on disposal	-	(163,532)	(166,512)	(330,044)
Other adjustments	(42)	(3,750)	-	(3,792)
At 31 December 2023	<u>7,267,500</u>	<u>13,561,427</u>	<u>451,852</u>	<u>21,280,779</u>
Net carrying amount				
At 31 December 2023	<u>3,723,633</u>	<u>2,892,236</u>	<u>317,035</u>	<u>6,932,904</u>
At 31 December 2022	<u>4,757,405</u>	<u>4,601,196</u>	<u>34,483</u>	<u>9,393,084</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

20. CAPITAL WORK IN PROGRESS

	Computer soft ware Ushs '000	Hardware Ushs '000	Branch refurbishment Ushs '000	Total Ushs '000
Cost				
At 1 January 2022	<u>2,563,122</u>	<u>-</u>	<u>-</u>	<u>2,563,122</u>
Additions	1,518,990	944,571	13,141	2,476,702
Transfer to intangible assets	<u>(2,477,112)</u>	<u>(302,077)</u>	<u>-</u>	<u>(2,779,189)</u>
At 31 December 2022	<u>1,605,000</u>	<u>642,494</u>	<u>13,141</u>	<u>2,260,635</u>
 Additions	 1,815,568	 127,386	 174,391	 2,117,345
Capitalized	(613,460)	(418,067)	(13,141)	(1,044,668)
Transfer to the statement of comprehensive income	<u>-</u>	<u>(291,892)</u>	<u>-</u>	<u>(291,892)</u>
At 31 December 2023	<u>2,807,108</u>	<u>59,921</u>	<u>174,391</u>	<u>3,041,420</u>

The items included in the capital works in progress relate to advance payments for purchase fixed assets that include furniture, motorcycles and branch refurbishments, the software relates to mainly mobile banking, digital financial services channel integrators and the core banking system upgrade.

21. INTANGIBLE ASSETS

	2023 Ushs '000	2022 Ushs '000
Cost		
At 1 January	10,304,597	7,825,361
Additions	166,594	2,124
Capitalization of capital work in progress	613,460	2,477,112
At 31 December	<u>11,084,651</u>	<u>10,304,597</u>
Amortisation		
At 1 January	2,849,985	1,974,730
Charge for the year	<u>1,127,007</u>	<u>875,255</u>
At 31 December	<u>3,976,992</u>	<u>2,849,985</u>
Net carrying amount		
At 31 December	<u>7,107,659</u>	<u>7,454,612</u>

The intangibles relate to the core banking system, Teammate Audit Software, Human Resource Management system, SMS integration, Enterprise Serial Bus (ESB), Credit Reference Bureau installation services, Agency banking, ACL analytics audit software, call center service (PABX), the bank's website, Microsoft software.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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22. LEASES

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

(a) Right-of-use assets

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

	2023 Ushs '000	2022 Ushs '000
Cost		
At 1 January	19,952,288	18,844,672
Additions	1,229,938	1,107,616
Termination of lease	(18,849)	-
At 31 December	<u>21,163,377</u>	<u>19,952,288</u>
Depreciation		
At 1 January	10,194,966	7,822,243
Charge for the year	2,510,879	2,372,723
Termination of lease	(17,278)	-
At 31 December	<u>12,688,567</u>	<u>10,194,966</u>
Carrying amount		
At 31 December	<u>8,474,810</u>	<u>9,757,322</u>

As at 31 December 2023, the future minimum lease payments under non-cancellable operating leases were as follows.

During the year, the bank contracted unique business systems limited to lease money counting machines to its various branches located across the country.

During the year the Bank terminated leases for Kyegegwa and Isingiro branch due to relocation to new premises.

Maturity analysis – Contractual undiscounted cash flows

	2023 Ushs'000	2022 Ushs'000
Less than one year	88,503	3,956,826
Between one and five years	10,472,641	10,262,983
More than five years	1,838,808	1,426,320
Total undiscounted lease liabilities at 31 December	<u>12,399,952</u>	<u>15,646,129</u>

(b) Amounts recognized in profit or loss

	2023 Ushs'000	2022 Ushs '000
Leases under IFRS 16		
Interest on lease liability (Note 7(b))	(1,499,059)	(1,602,565)
Loss on termination of the lease	1,571	-
Income from sub leasing right of use assets	-	205,363
Depreciation expense of right-of-use assets	(2,510,879)	(2,372,723)
Expenses relating to short term leases (Note 11(a))	1,500	1,966
	<u>(4,006,867)</u>	<u>(3,767,959)</u>

(c) Amounts recognized in the statement of cash flows

	2023 Ushs'000	2022 Ushs '000
Interest expense payment	1,356,671	1,283,960
Principal repayment	2,312,847	2,235,837
Total cash outflow for leases	<u>3,669,518</u>	<u>3,519,797</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

22. LEASES (CONTINUED)

(d) Lease liabilities

	2023	2022
	Ushs '000	Ushs '000
At 1 January	11,413,937	12,223,553
New leases	1,229,938	1,107,616
Accretion of interest	1,499,059	1,602,565
Repayment of the principal portion	(2,312,847)	(2,235,837)
Repayment of interest	<u>(1,356,671)</u>	<u>(1,283,960)</u>
At 31 December	<u>10,473,416</u>	<u>11,413,937</u>

23. LOAN SECURITY FUND

	2023	2022
	Ushs '000	Ushs '000
Opening balance	30,757,363	30,946,832
Received during the year	36,779,823	24,419,808
Paid off	<u>(35,119,338)</u>	<u>(24,609,277)</u>
Closing balance	<u>32,417,848</u>	<u>30,757,363</u>

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

24. DEPOSITS FROM CUSTOMERS

	2023	2022
	Ushs '000	Ushs '000
Savings accounts	25,389,853	17,955,251
Transaction accounts	1,084,542	2,125,339
Fixed deposits	<u>49,645,069</u>	<u>44,021,266</u>
	<u>76,119,464</u>	<u>64,101,856</u>

The weighted average effective interest rate on deposits from customers is 7.37% (2022: 8%) per annum.

25. BORROWINGS AND MANAGED FUNDS

	2023	2022
	Ushs '000	Ushs '000
Borrowed funds		
Bank of Africa (ii)	4,759,677	8,021,300
Oiko Credit (viii)	27,597,735	20,698,630
aBi Finance Limited (v)	20,120,403	26,755,424
BRAC International Senior debt (iv)	-	381,884
BRAC International Holdings BV (Subordinated debt)(iv)	587,005	550,237
Citibank Uganda (iii)	2,972,357	6,920,670
Soluti Finance East Africa (vi)	2,836,151	4,429,726
East African Development Bank (EADB) (vi)	-	4,101,690
Kenya Commercial Bank(ix)	6,646,116	8,926,990
Stichting Oxfam Novib (vii)	8,135,891	8,135,891
Loan arrangement fees	<u>(309,204)</u>	<u>(511,771)</u>
Managed Funds		
Kiva (i)	<u>1,326,136</u>	<u>954,706</u>
	<u>74,672,267</u>	<u>89,365,377</u>

25. BORROWINGS AND MANAGED FUNDS (CONTINUED)

i) Kiva

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

During 2023 BUBL received USD 137,837 and re-paid USD 67477. The facility has an outstanding balance of USD 312,548 equivalent to Ushs.1.32 billion. The loan has no security and there is no interest rate attached to it.

ii) Bank of Africa

In April 2022 the Bank received a new loan facility of UGX 10 billion for the period of 3 years from Bank of Africa. Interest and principal is paid on a quarterly basis at a rate of 14% p.a. The loan is tagged to T-bill of 182 day and the outstanding balance is Ushs 4.75 billion. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio.

iii) Citibank Uganda

In January 2020, BRAC Uganda Bank Limited obtained a loan from Citi Bank amounting to Ushs 14.8 billion equivalent to USD 4,000,000 with a tenor of 4 years and a grace period of one year. Interest and principal is paid on a quarterly basis. The loan interest rate is tagged to T-bill of 182 day + 2.5% and the average interest rate for the 2023 was 14.00%. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio and the outstanding balance is Ushs 2.97 billion which will be maturing in September 2024.

iv) BRAC International Holdings BV (Subordinated debt)

In April 2020, the dividend that was outstanding to BRAC International Holdings BV (BIHBV) of USD 3.4 million was converted into a loan for a period of one year at an interest rate of 5% per annum and the loan is not secured. Interest and principal is paid on a semi-annual basis. During the year 2021 the loan was converted from senior debt to subordinated debt. Following the increase of the authorized share capital of the Bank, BIHBV was allotted a total of 559,618 shares equivalent USD 1,584,997 (UGX 5,596,180,000) which were paid for by offset from the subordinated debt. As at 31 December 2023 the facility has an outstanding subordinated balance of USD155,202 equivalent to Ushs 587 million.

v) aBi Finance Limited

In October 2019, a loan agreement was signed between BRAC Uganda Bank Limited and aBi Finance limited amounting to Ushs 10 billion. The principal was repayable within 4 years and attracts an interest rate of minimum 12.8% pa with six months grace period for principal. The Company changed its name again from aBi 2020 Limited in 2020 to aBi Finance limited in 2022. The amount was disbursed on the 1 October 2019. Principal and interest payments are made on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. This facility is tagged to 182Tb+2%. The outstanding loan balance is Ushs 4.17 billion.

In August 2022, a loan agreement was again signed between BRAC Uganda Bank Limited and aBi finance limited amounting to Ushs 20 billion. The principal is repayable within 4 years and attracts an interest rate of minimum 11.60% pa with six months grace period for principal. Principal and interest payments are made on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. The outstanding loan balance is Ushs 15.95 billion.

vi) Soluti Finance East Africa

In June 2021, BRAC Uganda Bank Limited obtained a loan from Soluti Finance amounting to Ushs 6 billion for a period of 4 years with a grace period of 6 months. This loan facility has two purposes, Ushs 2 billion for Agriculture loans at an interest rate of 12.25% and Ushs 4 billion for general business loans at an interest rate of 17.5% per annum. Interest and principal is paid on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio and it's tagged to the T-bills 182 day the interest rate is being reviewed every six months. As at 31 December 2023, the facility had an outstanding balance of UGX 2.8 billion.

25. BORROWINGS AND MANAGED FUNDS (CONTINUED)

vii) Stichting Oxfam Novib

In June 2022, BRAC Uganda Bank Limited obtained a loan from Stichting Oxfam Novib amounting to Ushs 7.9 billion equivalent to USD 2,135,400 with a tenor of 3 years. Interest is paid on a quarterly basis. The principal will be paid as a bulk payment at the end of the loan term. The loan interest rate is on fixed rate of 16%. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. As at 31 December 2023, the facility had an outstanding balance of Ushs 8.13 billion including interest accrued.

viii) Oiko Credit

In July 2022, BRAC Uganda Bank Limited signed a loan from Oiko Credit amounting to Ushs 30 billion at a fixed interest rate of 15% per annum for a period of 3 years thereafter interest rate will be reviewed to the prevailing 2 years Bond+4.5%. Interest is payable on a quarterly basis. The first principal repayment will be paid after 12 months thereafter every six months in equal installments. The loan was disbursable in two tranches. The first draw down of Ushs 20 billion was done in July 2022 and the second disbursement was done in September 2023. As at 31 December 2023, the facility had an outstanding balance of UGX 27.6 billion.

ix) Kenya Commercial Bank (KCB)

In March 2022, BRAC Uganda Bank Limited signed a loan from KCB amounting to Ushs 10.5 billion at an interest rate of 15% per annum for a period of 4 years. Interest rate is tagged to prime rate less 6%. Interest and principal are payable on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. As at 31 December 2023, the facility had an outstanding balance of UGX 6.6 billion.

Value of security held

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

(b) Analysis of movement in borrowings

	2023	2022
	Ushs '000	Ushs '000
At 1 January	89,365,377	59,293,576
Receipts during the year	10,658,750	71,629,471
Interest expense	10,931,472	9,613,081
Payment of interest	(11,296,662)	(8,387,671)
Loan arrangement fees	(202,568)	(237,523)
Payment of principal during the year	<u>(24,784,102)</u>	<u>(42,545,557)</u>
At 31 December	<u>74,672,267</u>	<u>89,365,377</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

26. OTHER LIABILITIES

	2023	2022
	Ushs '000	Ushs '000
Financial liabilities		
Accrual for expenses	3,628,446	3,075,413
CRB fees payable	170,222	545,806
Accrual for audit fees	113,191	120,215
Credit life insurance premium payable	226,073	203,211
Unclaimed bank credits	528	528
Credit life insurance claim payable	330,304	183,095
Other liabilities*	<u>411,211</u>	<u>119,728</u>
	<u>4,879,975</u>	<u>4,247,996</u>
Non-financial liabilities		
Staff leave provision	534,628	443,920
Long service award provision	878,931	-
NSSF contributions payable	760,229	687,405
Excise duty	58,025	33,098
Tax withholdings payable	262,628	1,334,105
PAYE payable	1,453,199	1,239,882
Salary accruals	-	14,746
Stamp duty accruals	<u>302</u>	<u>135</u>
	<u>3,947,942</u>	<u>3,753,291</u>
Total	<u>8,827,917</u>	<u>8,001,287</u>

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

* Other liabilities include commissions payable, agent commission collections, recoveries from suppression, SMS notification fees payable, search fees.

27. DONOR FUNDS

		2023	2022
	Note	Ushs '000	Ushs '000
Donor funds received in advance	27(a)	1,934,700	1,711,361
Donor funds investment in fixed assets	27(c)	<u>3,248,474</u>	<u>2,798,567</u>
		<u>5,183,174</u>	<u>4,509,928</u>

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

(a) Donor funds received in advance		2023	2022
	Note	Ushs '000	Ushs '000
At 1 January		1,711,361	4,187,245
Donations received during the year	27(b)	4,138,615	2,603,837
Transferred to statement of comprehensive income	27(d)	(2,823,064)	(1,581,344)
Transferred to BRAC NGO	27(d)	-	(356,379)
Transferred from donor funds received in Advance- to receivables		(109,119)	-
Transferred to statement of income and expenses/ Utilisation		(102,150)	-
Transfer of unutilised funds		(152,723)	-
Grants receivable-Transferred to the Income statement		76,789	-
Transferred to donor funds investment in fixed assets	27(c)	<u>(805,009)</u>	<u>(3,141,998)</u>
At 31 December		<u>1,934,700</u>	<u>1,711,361</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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27. DONOR FUNDS (CONTINUED)

(b) Donations received during the year

	2023	2022
	Ushs '000	Ushs '000
Name of donor		
MCF- AIM	3,333,245	1,625,750
World Savings Organization	-	859,752
Long Term Foundation	692,900	-
Grameen Foundation	-	9,216
FMO	112,470	109,119
	<u>4,138,615</u>	<u>2,603,837</u>

(c) Donor funds investment in fixed assets

	2023	2022
	Ushs '000	Ushs '000
At 1 January	2,798,567	34,803
Transferred from donor funds received in advance	805,009	3,141,998
Transferred from payables	-	27,360
Transferred to statement of comprehensive income (Amortisation) fixed assets	(355,102)	(405,594)
At 31 December	<u>3,248,474</u>	<u>2,798,567</u>

(d) Grant utilization

	2023	2022
	Ushs '000	Ushs '000
Transferred to statement of comprehensive income from donor funds - grant income	2,823,065	1,581,344
Transferred to other operating income (Note 8)	102,147	-
Total transferred to statement of comprehensive income	<u>2,925,212</u>	<u>1,581,344</u>
Transferred to comprehensive income-fixed assets	355,102	405,594
Transferred to payables	-	27,360
Transferred to BRAC Uganda NGO	-	356,379
Transferred to receivables	152,723	-
Transfer of unutilised donor funds	109,119	-
	<u>3,542,156</u>	<u>2,370,677</u>

(e) Grant income

	2023	2022
	Ushs '000	Ushs '000
Grant income		
Transferred to comprehensive income-operating (note 27 (d))	2,823,065	1,581,344
Transferred to comprehensive income-fixed assets (note 27 (d))	355,102	405,594
	<u>3,178,167</u>	<u>1,986,938</u>

(f) Donations receivable

	2023	2022
	Ushs '000	Ushs '000
Name of donor		
Grameen Foundation	9,216	9,216
FMO	-	109,119
Equator capital	76,788	-
	<u>86,004</u>	<u>118,335</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

28. SHARE CAPITAL

The authorized issued and paid ordinary shares remained 5,442,188 shares with a nominal value of Ushs 10,000. Each share is entitled to one vote. As at 31 December 2023, the shareholding structure of the Bank was as below:

2023

	As at 1 January 2023	Addition	As at 31 December 2023
	Ushs '000	Ushs'000	Ushs '000
BRAC International Holdings BV	26,666,180	-	26,666,180
Deutsche Investitions und Entwicklungsgellschaft mbH	9,251,900	-	9,251,900
ASN Microkerdietpool	9,251,900	-	9,251,900
Shore Cap 111, LP	9,251,900	-	9,251,900
Total	<u>54,421,880</u>	<u>-</u>	<u>54,421,880</u>

2022

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

There is no single controlling party.

RETAINED EARNINGS/(ACCUMULATED LOSSES)

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

DIVIDEND

No dividend was proposed by the directors during the year (2022: Nil).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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29. CASH FLOWS FROM OPERATING ACTIVITIES

		2023	2022
		Ushs '000	Ushs '000
Operating activities	Note		
Profit before tax		2,744,064	1,772,638
Adjustments for:			
Depreciation (property and equipment)	19	3,982,610	4,164,571
Depreciation (right of use assets)	22(a)	2,510,879	2,372,724
Amortization (intangible assets)	21	1,127,007	875,255
Movement in deferred income	27(d)&(a)	(3,356,250)	(1,986,938)
Write off of furniture and equipment	19	(3,792)	-
Unrealized foreign exchange gains	9	149,884	528,687
Transfer to the statement of comprehensive income	20	291,892	-
Gain on disposal of property and equipment		(79,147)	(55,872)
Movement in ECL for financial assets	16	3,790,445	83,754
Interest expense – leases	7(b)	1,499,059	1,602,565
Loss on termination of the lease	22(a)	1,571	-
Interest expense – borrowings	25(b)	<u>10,931,472</u>	<u>9,613,081</u>
Cash flow before changes in working capital		<u>23,589,694</u>	<u>18,970,465</u>
Changes in working capital			
Increase in loans and advances		(38,233,912)	(6,040,830)
Increase in other assets		(667,097)	(579,353)
(Increase)/ decrease in related party receivables		(2,929,486)	204,533
Decrease/ (increase) in short term deposits		29,912,373	(23,709,990)
Increase in related party payables		2,107,306	2,820,864
Increase in other liabilities		703,178	2,173,950
Increase/(decrease) in voluntary deposits		12,017,608	(1,574,285)
Increase/(decrease) in loan security fund		<u>1,660,485</u>	<u>(189,469)</u>
Cash inflow from/ (used in) operations		<u>28,160,149</u>	<u>(7,924,115)</u>
Income taxes paid	12(c)	(392,752)	(22,170)
Interest paid on borrowings	25(b)	(11,296,662)	(8,387,671)
Accretion of interest	22(c)	<u>(1,356,671)</u>	<u>(1,283,960)</u>
Net cash flows from /(used in) operating activities		<u>15,114,064</u>	<u>(17,617,916)</u>

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.

	2023	2022
	Ushs '000	Ushs '000
Cash on hand and balances with Bank of Uganda (Note 13)	1,678,364	2,409,526
Deposits with other financial institutions (Note 14(a))	<u>19,948,210</u>	<u>20,032,909</u>
	<u>21,626,574</u>	<u>22,442,435</u>

31. CAPITAL RISK MANAGEMENT

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

31. CAPITAL RISK MANAGEMENT (CONTINUED)

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

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

	2023	2022
	Ushs '000	Ushs '000
Other liabilities (Note 26)	8,827,917	8,001,287
Due to related parties (Note 17(b))	4,967,514	2,860,208
Lease liability (Note 22)	10,473,416	11,413,937
Borrowings (Note 25)	74,672,267	89,365,377
Less: Cash and cash equivalents (Note 30)	<u>(21,626,574)</u>	<u>(22,442,435)</u>
Net debt	77,314,540	89,198,374
Equity	<u>52,911,304</u>	<u>51,911,511</u>
Capital and net debt	<u>130,225,844</u>	<u>141,109,885</u>
 Gearing ratio	 59%	 63%

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

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

The Financial Institutions Act requires each Tier 2 Institution to:

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

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

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

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

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31. CAPITAL RISK MANAGEMENT (CONTINUED)

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

		2023	2022
	Note	Ushs '000	Ushs '000
CORE CAPITAL (Tier 1)			
Paid up share capital	28	54,421,880	54,421,880
Accumulated losses	28	(2,327,249)	(3,092,313)
Less: Deductions determined by the FIA			
Capital work in progress	20	(2,807,108)	(1,605,000)
Intangible assets	21	(7,107,659)	(7,454,612)
Deferred income tax asset	12(b)	(7,445,802)	(8,797,321)
Unrealized foreign exchange gains	9	(533,786)	(360,447)
Total Core Capital		34,200,276	33,112,187
SUPPLEMENTARY CAPITAL (Tier 2)			
Unencumbered general provisions for losses	35	1,856,626	1,495,406
Subordinated debt	25	587,005	550,237
Total Supplementary Capital		2,443,631	2,045,643
TOTAL CAPITAL (Tier 1+Tier 2)		36,643,907	35,157,830

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

		Financial position		Risk	Risk weighted assets	
		2023	2022	weighting	2023	2022
		Ushs'000	Ushs'000		Ushs'000	Ushs'000
Notes and coins	13	1,678,364	1,409,526	0%	-	-
Balances with Bank of Uganda	13	-	1,000,000	0%	-	-
Balances with banks in Uganda before ECL	14(a)	20,083,917	20,169,192	20%	4,016,783	4,033,838
Balances with other institutions in Uganda before ECL	14(b)	17,986,901	48,102,767	20%	3,597,380	9,620,553
Loans net of provisions	31(d)	186,975,209	151,193,662	100%	186,975,209	151,193,662
Premises and other fixed assets	22(a)&19	15,407,714	19,150,406	100%	15,407,714	19,150,406
Other assets**		9,132,860	5,957,600	100%	9,132,860	5,957,600
Total risk weighted assets		251,264,965	246,983,151		219,129,946	189,956,059

Capital	2023	2022	FIA	Ratio	
	Ushs'000	Ushs'000	Regulatory ratios	2023	2022
Tier 1 Capital					
(Min ratio -12.5%)	<u>34,200,276</u>	<u>33,112,187</u>	<u>12.5%</u>	<u>15.61%</u>	<u>17.43%</u>
Tier 1 and Tier 2 Capital					
(Min ratio -14.5%)	<u>36,643,907</u>	<u>35,157,830</u>	<u>14.5%</u>	<u>16.72%</u>	<u>18.51%</u>

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

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:

	2023	2022
	Ushs '000	Ushs '000
Gross loans and advances	189,356,956	153,822,796
Specific provisions for loans and advances	(2,381,747)	(2,629,136)
Net loans and advances	186,975,209	151,193,660

31. CAPITAL RISK MANAGEMENT (CONTINUED)

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

	2023	2022
	Ushs '000	Ushs '000
As per Capital ratio Computations		
Balance with Banks in Uganda	20,083,917	20,169,192
Balance with other Institutions in Uganda	<u>17,986,901</u>	<u>48,102,767</u>
Total per Capital Computation	<u>38,070,818</u>	<u>68,271,959</u>
Less: Impairment Allowances (Note 14(a&b))	<u>(257,244)</u>	<u>(461,313)</u>
Balance per statement of financial position	<u>37,813,574</u>	<u>67,810,646</u>

BASEL II implementation

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

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

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

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

Capital Buffers

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

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

Internal Capital Adequacy Assessment Plan

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

32. FINANCIAL RISK MANAGEMENT

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	2023	2022
	Ushs '000	Ushs '000
Financial assets		
Cash and balances with Bank of Uganda (Note 13)	1,678,364	2,409,526
Deposits and balances due from banks (Note 14(a&b))	37,813,574	67,810,646
Loans and advances to customers (Note 15)	184,179,823	149,736,356
Related party receivable (Note 17 (a))	4,947,764	2,018,278
Other assets*	<u>1,060,046</u>	<u>379,616</u>
	<u>229,679,571</u>	<u>222,354,422</u>
Financial liabilities		
Loan security fund (Note 23)	32,417,848	30,757,363
Deposits from customers (Note 24)	76,122,065	64,101,856
Related party payables (Note 17(b))	4,967,514	2,860,208
Borrowings (Note 25)	74,672,267	89,365,377
Other liabilities**	4,879,975	4,247,996
Lease liabilities (Note 22(iii))	<u>10,473,416</u>	<u>11,413,937</u>
	<u>203,533,085</u>	<u>202,746,737</u>

*Other assets include, wallet to bank transactions, grants receivable, employee receivables (work related advances).

*Other liabilities include, payables to third parties, accrued utilities, credit insurance premiums payable, CRB inquiry charges payable, & commission payable.

a) Introduction and overview

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

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

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

Risk management framework

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

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

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

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Introduction and overview (Continued)

Risk management framework (Continued)

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

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

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

Abridged view of BUBL's Risk Management Framework

#	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

Key

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

b) Strategic risk management

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

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Strategic risk management (Continued)

Management of strategic risks

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

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

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

c) Compliance risk management

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

Management of compliance risk

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

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

d) 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.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

The greatest portion of the Bank's loan book is unsecured group loans and as such, exposure to credit risk and the management of this risk is a key consideration for the Board and management. To mitigate this risk, unsecured group loans are monitored and regulated through strict group supervision by the customer relationship officers and enforcement of group discipline of the group members.

Macroeconomic Forward-looking information for measuring of ECL

The annual inflation has continued to moderate, reflecting the implementation of appropriate monetary and fiscal policies, the fading impact of drought on food prices and the easing of global cost pressures, however, an escalation of the ongoing geopolitical conflicts could feed into higher oil prices and consequently domestic fuel prices. Additionally, volatility in international financial markets could lead to an even weaker Uganda shilling as capital outflows are triggered further hence there was a need to revisit the forecasts used. The Bank obtained macroeconomic factors from Bank of Uganda and Uganda Bureau of statistics including terms of trade, CPI core, Inflation core, lending rate, forex rate, 91-T-Bill, credit domestic product, trade balance, private demand deposits, private time and saving deposits, CBR and time deposit rate. It then performed a multivariate regression analysis between the entity's NPL as a proxy for the entity's default rates and the macroeconomic factors. The variables selected as the most significant factors with low p- values were then considered in the final forward-looking information overlay.

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

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

Weighting applied to the base, upside and downside

The Bank changed the weightings it applied to its base, upside and downward scenarios to 50%, 20% and 30% respectively from 20%, 60% and 30% respectively.

Use of estimates and judgements

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

Use of assumptions

Economic growth is projected at 6% in FY 2023/24 given a faster decline of global inflation, much as there is uncertainty due to the ongoing geopolitical conflicts, it's projected that there may be a minor impact on the Bank's operations due to these factors. However, Management will closely monitor and assess for it's impact on the business. The Bank has undertaken a variety of measures and implemented to ensure that the Bank will be able to operate and service clients.

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

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

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

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

Management of credit risk

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

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 satellite Manager (SM) for appraisals. The SM 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 SM 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 SM 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 the borrower/applicant does 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, AM and the BM 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 BM shall approve. The loans installments are repayable monthly.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

Monitoring of collections

a) *Group guaranteed loan*

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

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

b) *Small Enterprise Product (Individual Loans)*

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

Impaired loans and advances

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

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

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

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

		2023 Ushs '000	2022 Ushs '000
Balances with the central bank		-	1,000,000
Deposits with other banks	14(a)	19,948,210	20,032,909
Placements with other banking Institutions	14(b)	17,865,364	47,777,737
Loans and advances to customers	15	184,179,823	149,736,356
Related party receivables	17 (a)	4,947,764	2,018,278
Other assets	18	1,060,046	379,616
		<u>226,941,161</u>	<u>220,944,896</u>

The above table represents the credit risk exposure to the Bank at 31 December 2023 and 31 December 2022 without considering any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

ECL sensitivity analysis

Credit quality analysis

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

	Stage 1 Ushs'000	Stage 2 Ushs'000	Stage 3 Ushs'000	2023 Total Ushs'000
Current: 0-7 days	172,475,553	-	-	172,475,553
Current: 8-29 days	7,710,680	477,619	-	8,188,299
Overdue: 30- 59 days	-	1,902,680	-	1,902,680
Overdue: 60-89 days	-	572,885	386,916	959,801
Overdue: 90-179 days	-	-	1,770,958	1,770,958
Overdue 180- 364 days	-	-	1,924,832	1,924,832
Overdue: > 364 days	-	-	379,400	379,400
Total	<u>180,186,233</u>	<u>2,953,184</u>	<u>4,462,106</u>	<u>187,601,523</u>

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

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

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

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included under note 15 of the financial statements.

	Stage 1 Ushs'000	Stage 2 Ushs'000	Stage 3 Ushs'000	2023 Total Ushs'000
Loans and advances at amortized cost	180,186,233	2,953,184	4,462,106	187,601,523
Expected credit loss allowance	<u>(138,626)</u>	<u>(28,706)</u>	<u>(3,254,368)</u>	<u>(3,421,700)</u>
Carrying amount	<u>180,047,607</u>	<u>2,924,478</u>	<u>1,207,738</u>	<u>184,179,823</u>

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

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
	2023	2022
Group loans	10%	10%
Non group loans	100%	100%
Staff loans	100%	100%
		Cash
		Cash (10%)/ Property (Land)
		Property and equipment

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

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

	2023		2022	
	Gross carrying amount	Collateral	Gross carrying amount	Collateral
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Stage 1 and 2	182,930,397	29,645,428	147,721,749	38,108,278
Stage 3	<u>4,462,106</u>	<u>1,149,819</u>	<u>5,557,203</u>	<u>1,695,889</u>
	<u>187,392,503</u>	<u>30,795,247</u>	<u>153,278,952</u>	<u>39,804,167</u>

	Fair value of collateral					
2023	Maximum exposure	Cash	Properties	Total collateral	Net exposure	Associated ECL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	
Loans and advances	<u>187,392,502</u>	<u>30,795,247</u>	<u>-</u>	<u>30,795,247</u>	<u>156,597,255</u>	<u>3,421,700</u>
2022						
Loans and advances	<u>153,169,278</u>	<u>25,554,592</u>	<u>14,249,575</u>	<u>39,804,167</u>	<u>113,365,111</u>	<u>3,542,596</u>

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

Amounts arising from ECL

The following table show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2022 represent the allowance account for credit losses and reflect the measurement basis under IFRS 9.

	2023	2022
	12-month ECL	12-month ECL
	Ushs '000	Ushs '000
Balance at 1 January	3,542,596	12,963,447
Change during the year	3,213,334	(565,011)
Financial assets derecognized	<u>(3,334,230)</u>	<u>(8,855,840)</u>
Balance at 31 December	<u>3,421,700</u>	<u>3,542,596</u>

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

ECL disclosures for financial assets

2023	12-month ECL Ushs '000	Lifetime ECL not credit impaired Ush '000	Lifetime ECL credit impaired Ushs '000	Total Ushs '000
Cash and Bank	135,707	-	-	135,707
Short term deposits	121,537	-	-	121,537
Loans and advances	<u>138,626</u>	<u>28,706</u>	<u>3,254,368</u>	<u>3,421,700</u>
Total	<u>395,870</u>	<u>28,706</u>	<u>3,254,368</u>	<u>3,678,944</u>

2022	12-month ECL Ushs '000	Lifetime ECL not credit impaired Ushs '000	Lifetime ECL credit impaired Ushs '000	Total Ushs '000
Cash and Bank	136,283	-	-	136,283
Short term deposits	325,030	-	-	325,030
Loans and advances	<u>89,368</u>	<u>16,238</u>	<u>3,436,990</u>	<u>3,542,596</u>
Total	<u>550,681</u>	<u>16,238</u>	<u>3,436,990</u>	<u>4,003,909</u>

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.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

Determining whether credit risk has increased significantly

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

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

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

Inputs, assumptions, and techniques used for estimating impairment

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

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

Definition of default

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

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

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.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

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

Non-micro portfolio

	Private Time and Savings Deposits (US\$ billion)	Inflation Core	Credit - Domestic (US\$ billion)	Terms of Trade (Days)
At 31 December 2023	11,600	18.95%	38,242	105.29
At 31 December 2022	10,103	10.2%	32,005	95.87

Micro portfolio

	Central Bank Rate
At 31 December 2023	9.5%
At 31 December 2022	10%

Loss Allowance

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

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

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

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

Year ended 31 December 2023

ECL Movement for loans and advances	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Loss allowance as at 1 January 2023	89,368	16,238	3,436,990	3,542,596
Movement during the period	49,258	12,468	3,151,608	3,213,334
Write off	-	-	(3,334,230)	(3,334,230)
Loss allowance as at 31 December 2023	<u>138,626</u>	<u>28,706</u>	<u>3,254,368</u>	<u>3,421,700</u>

Year ended 31 December 2022

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

Cash and cash equivalents

Year ended 31 December 2023

	2023	2022
	Ushs'000	Ushs'000
Balance as at 1 January	136,283	83,967
Net re-measurements of loss allowances	(576)	52,316
Balance at 31 December	<u>135,707</u>	<u>136,283</u>

Deposits and balances due from banks

Year ended 31 December 2023

	2023	2022
	Ushs'000	Ushs'000
Balance as at 1 January	325,030	163,732
Net re-measurements of loss allowances	(203,493)	161,298
Balance at 31 December	<u>121,537</u>	<u>325,030</u>

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

Loss allowance reconciliation

The following table provides a reconciliation between:

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

2023

	Loans and advances to customers at amortized cost	Placements at amortized cost	Cash and cash equivalents	Total
Balance at 1 January	3,542,596	325,030	136,283	4,003,909
Charge during the year	3,213,334	(203,493)	(576)	3,009,265
Write offs during the year	<u>(3,334,230)</u>	<u>-</u>	<u>-</u>	<u>(3,334,230)</u>
Balance at 31 December	<u>3,421,700</u>	<u>121,537</u>	<u>135,707</u>	<u>3,678,944</u>

2022

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

The following table provides a reconciliation between;

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

2023

	Loans and advances to customers at amortized cost	Placements with other banking institutions	Deposits with other banks	Total
Balance at 1 January	<u>153,278,952</u>	<u>48,102,767</u>	<u>20,169,192</u>	<u>221,550,911</u>
Loans disbursed	426,790,733	-	-	426,790,733
Loan repayments	(387,378,499)	-	-	(387,378,499)
Loan write offs	(3,334,230)	-	-	(3,334,230)
Net cash movement	-	(30,115,866)	(85,275)	(30,201,141)
Deferred loan fees	(1,591,385)	-	-	(1,591,385)
Deferred staff expense	<u>(164,048)</u>	<u>-</u>	<u>-</u>	<u>(164,048)</u>
Balance at 31 December	<u>187,601,523</u>	<u>17,986,901</u>	<u>20,083,917</u>	<u>225,672,341</u>

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

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

2022

	Loans and advances to customers at amortized cost	Investments at amortized cost	Cash at bank	Total
Balance at 1 January	<u>156,633,053</u>	<u>24,231,479</u>	<u>12,426,490</u>	<u>193,291,022</u>
Loans disbursed	353,444,110	-	-	353,444,110
Loan repayments	(347,398,526)	-	-	(347,398,526)
Loan write offs	(8,855,841)	-	-	(8,855,841)
Net cash movement	-	23,871,288	7,742,702	31,613,990
Loan modification	781,180	-	-	781,180
Deferred loan fees	(1,301,002)	-	-	(1,301,002)
Deferred staff expense	(24,022)	-	-	(24,022)
Balance at 31 December	<u>153,278,952</u>	<u>48,102,767</u>	<u>20,169,192</u>	<u>221,550,911</u>

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	2023 Ushs'000	2022 Ushs'000
Trade	119,573,927	98,147,847
Agriculture	35,903,344	28,699,203
Business services	8,090,666	7,828,629
Manufacturing	9,552,035	7,039,811
Community, social & other services	6,083,067	4,808,206
Building, construction and real estate	6,890,091	5,115,794
Personal loans and house hold loans	1,009,914	434,386
Transport and communication	1,166,546	824,129
Mining and quarrying	814,924	671,289
Electricity and water	211,690	39,882
Other services	60,752	213,620
Total	<u>189,356,956</u>	<u>153,822,796</u>

From a risk management point of view, once an asset is forborne or modified due to financial difficulties of the borrower, the Bank monitors the exposure until it exits forbearance, i.e., it is either cured or completely and ultimately derecognised.

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

	2023 Ushs'000	2022 Ushs'000
Amortized cost of financial assets modified during the period	-	4,614,641
Net modification (loss)/gain	<u>-</u>	<u>(435,150)</u>

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Credit risk (Continued)

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

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

31 December 2023	Post modification		Pre-modification	
	Gross carrying amount	Corresponding ECL	Gross carrying amount	Corresponding ECL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Facilities that have cured since modification and are now measured using the 12-month ECL	192	-	1,923	1,423
Facilities that have reverted to Stage 2/3 lifetime ECL having once cured	78,419	32,962	94,441	9,817
31 December 2022	Post modification		Pre-modification	
	Gross carrying amount	Corresponding ECL	Gross carrying amount	Corresponding ECL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Facilities that have cured since modification and are now measured using the 12-month ECL	134,181	87	193,538	73,626
Facilities that have reverted to Stage 2/3 lifetime ECL having once cured	863,980	545,900	1,540,961	403,974

During the year, we had contractual financial assets (loans and advances) that were written off amounting to Ushs 3.3 billion (2022: Ushs 8.8 billion) which were subject to enforcement activities.

e) Interest rate risk

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

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

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Interest rate risk (Continued)

Year ended 31 December 2023

	Average interest	Up to 1 month Ushs '000	From 1 to 3 months Ushs '000	From 3 to 12 months Ushs '000	Above 12 months Ushs '000	Sub total Ushs '000	Fixed interest rates instruments Ushs '000	Non- interest bearing Ushs '000	Total Ushs '000
Financial Assets									
Cash and balances with the central bank		-	-	-	-	-	-	1,678,364	1,678,364
Deposits due from other financial Institutions	11%	19,826,672	4,713,257	13,273,645	-	37,813,574	-	-	37,813,574
Loans and advances to customers	52.78%	-	-	-	-	-	184,179,823	-	184,179,823
Total financial assets		<u>19,826,672</u>	<u>4,713,257</u>	<u>13,273,645</u>	<u>-</u>	<u>37,813,574</u>	<u>184,179,823</u>	<u>1,678,364</u>	<u>223,671,761</u>
Financial liabilities									
Customer deposits		28,584,137	10,335,554	37,199,773	-	76,119,464	-	-	76,119,464
Borrowings and managed funds	13.28%	4,326,484	4,987,779	21,585,641	43,772,363	74,672,267	-	-	74,672,267
Lease liabilities		227,683	455,366	2,049,147	7,741,220	10,473,416	-	-	10,473,416
Total financial liabilities		<u>33,138,304</u>	<u>15,778,699</u>	<u>60,834,561</u>	<u>51,513,583</u>	<u>161,265,147</u>	<u>-</u>	<u>-</u>	<u>161,265,147</u>
Interest rate gap		<u>(13,311,632)</u>	<u>(11,065,442)</u>	<u>(47,560,916)</u>	<u>(51,513,583)</u>	<u>(123,451,573)</u>	<u>184,179,823</u>	<u>1,678,364</u>	<u>62,406,614</u>

Year ended 31 December 2022

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

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Interest rate risk (Continued)

The previous tables show the discounted cash flows on the Bank's financial instruments 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% (2022: 1%) increase/decrease in interest rates in the current year would affect profit or loss before tax by Ushs +/- 1,234,516 (2022: Ushs +/-970,705) and equity by Ushs +/- 864,161 (2022: Ushs +/-679,494).

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

Interest rate benchmark reform

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

f) 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.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Liquidity risk (Continued)

Exposure to Liquidity risk

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2023 to the contractual maturity date.

31 December 2023	Up to 1 month Ushs '000	From 1 to 3 months Ushs '000	From 3 to 12 months Ushs '000	Above 12 months Ushs '000	Total Ushs '000
Assets					
Financial assets					
Cash at hand	1,678,364	-	-	-	1,678,364
Deposits due from other financial Institutions	19,826,672	4,713,257	13,530,889	-	38,070,818
Loans and advances to customers	19,634,471	42,891,715	117,507,383	10,527,098	190,560,667
Other assets	1,060,046	-	-	-	1,060,046
Related party receivables	433,754	867,508	3,646,502	-	4,947,764
Total financial assets	<u>42,633,307</u>	<u>48,472,480</u>	<u>134,684,774</u>	<u>10,527,098</u>	<u>236,317,659</u>
Financial liabilities					
Loan security fund	6,145,971	5,758,313	20,223,564	290,000	32,417,848
Customer deposits	28,584,137	10,335,554	37,194,957	-	76,119,464
Related party payables	457,294	914,587	4,131,383	-	4,967,514
Borrowings and managed funds	4,326,484	4,987,779	21,585,641	54,829,191	85,729,095
Other liabilities	1,970,453	562,869	2,346,653	-	4,879,975
Lease liabilities	227,683	455,366	2,049,147	9,667,756	12,399,952
Total financial liabilities	<u>41,712,022</u>	<u>23,014,468</u>	<u>87,531,345</u>	<u>64,786,947</u>	<u>216,513,848</u>
Net Liquidity position	<u>921,285</u>	<u>25,458,012</u>	<u>47,153,429</u>	<u>(54,259,849)</u>	<u>19,803,811</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Liquidity risk (Continued)

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

31 December 2022	Up to 1 month Ushs '000	From 1 to 3 months Ushs '000	From 3 to 12 months Ushs '000	Above 12 months Ushs '000	Total Ushs '000
Assets					
Financial assets					
Cash at hand	1,409,526	-	-	-	1,409,526
Deposits due from other financial Institutions	32,929,856	7,455,434	27,886,670	-	68,271,960
Loans and advances to customers	20,988,678	34,910,212	95,814,242	3,369,635	155,082,767
Other assets	379,616	-	-	-	379,616
Related party receivables	<u>108,172</u>	<u>224,225</u>	<u>1,685,881</u>	<u>-</u>	<u>2,018,278</u>
Total financial assets	<u>55,815,848</u>	<u>42,589,871</u>	<u>125,386,793</u>	<u>3,369,635</u>	<u>227,162,147</u>
Financial liabilities					
Loan security fund	8,602,134	5,217,243	16,773,898	164,088	30,757,363
Customer deposits	20,125,735	13,817,786	30,158,335	-	64,101,856
Related party payables	266,863	542,997	2,050,348	-	2,860,208
Borrowings and managed funds	637,131	4,835,703	16,108,075	78,616,555	100,197,464
Other liabilities	954,185	850,771	2,443,040	-	4,247,996
Lease liabilities	<u>-</u>	<u>-</u>	<u>3,956,826</u>	<u>11,689,303</u>	<u>15,646,129</u>
Total financial liabilities	<u>30,586,048</u>	<u>25,264,500</u>	<u>71,490,522</u>	<u>90,469,946</u>	<u>217,811,016</u>
Liquidity gap	<u>25,229,800</u>	<u>17,325,371</u>	<u>53,896,271</u>	<u>(87,100,311)</u>	<u>9,351,131</u>

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) 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.

h) Currency risk

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

Foreign exchange exposures in transactional currencies other than the local currency are monitored via periodic cash flow and budget forecasts and are kept to an acceptable level.

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

h) Currency risk (Continued)

The table below summarizes the Bank's exposure to foreign currency risk as at 31 December 2023. The amounts denominated in Uganda Shillings (Ushs) are indicated in the table below for information.

	Ushs	USD	2023	Ushs	USD	2022
	Ushs '000	Ushs '000	Total	Ushs	Ushs '000	Total
			Ushs '000	Ushs '000	Ushs '000	Ushs '000
ASSETS						
Cash and Bank	<u>20,649,052</u>	<u>1,113,229</u>	<u>21,762,281</u>	<u>20,810,445</u>	<u>1,631,990</u>	<u>22,442,435</u>
	<u>20,649,052</u>	<u>1,113,229</u>	<u>21,762,281</u>	<u>20,810,445</u>	<u>1,631,990</u>	<u>22,442,435</u>
Equity and Liabilities						
Borrowings and managed funds	<u>72,759,126</u>	<u>1,769,129</u>	<u>74,672,267</u>	<u>87,478,550</u>	<u>1,886,827</u>	<u>89,365,377</u>
	<u>72,759,126</u>	<u>1,769,129</u>	<u>74,672,267</u>	<u>87,478,550</u>	<u>1,886,827</u>	<u>89,365,377</u>
Net position	<u>-</u>	<u>(655,900)</u>	<u>-</u>	<u>-</u>	<u>(254,837)</u>	<u>-</u>

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

h) Currency risk (Continued)

Sensitivity analysis

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

	2023	2022
	Ushs '000	Ushs '000
	Effect on profit	Effect on profit
	before tax	before tax
Currency-USD		
+5% US\$ Movement	(32,795)	(12,742)
-5% US\$ Movement	32,795	12,742
	2023	2022
	Ushs '000	Ushs '000
	Effect on equity	Effect on equity
Currency-USD		
+5% US\$ Movement	(22,957)	(9,520)
-5% US\$ Movement	22,957	9,520

i) 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.

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - unobservable inputs for the asset or liability.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

As at 31 December 2023, there were no assets and liabilities that are recognised in the financial statements at fair value.

Management assessed that the fair value of financial instruments including Loans and advance, other financial assets, amounts due from related companies, cash and cash equivalents, loan security fund, amounts due to related companies, customer deposits, other financial liabilities and borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments

34. ANALYSIS OF CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Borrowings and managed funds	Lease liabilities	Liabilities ordinary shares	Total
Balance at 01 January 2023	<u>89,365,377</u>	<u>11,413,937</u>	<u>54,421,880</u>	<u>155,201,194</u>
Changes from financing cash flows				
Proceeds from loans and borrowings	10,658,750	-	-	10,658,750
Repayment of borrowings	(24,784,102)	-	-	(24,784,102)
New leases during the year	-	1,229,938	-	1,229,938
Payment of lease liabilities	-	(2,312,847)	-	(2,312,847)
Total changes from financing cash flows	<u>(14,125,352)</u>	<u>(1,082,909)</u>	<u>-</u>	<u>(15,208,261)</u>
Other changes:				
Repayment of interest	-	(1,356,671)	-	(1,356,671)
Loan arrangement fees	(202,568)	-	-	(202,568)
Interest expense	10,931,472	1,499,059	-	12,430,531
Interest paid	(11,296,662)	-	-	(11,296,662)
Total liability-related other changes	<u>(567,758)</u>	<u>142,388</u>	<u>-</u>	<u>(425,370)</u>
Balance at 31 December 2023	<u>74,672,267</u>	<u>10,473,416</u>	<u>54,421,880</u>	<u>139,567,563</u>
	Borrowings and managed funds	Lease liabilities	Liabilities ordinary shares	Total
Balance at 01 January 2022	<u>59,293,576</u>	<u>12,223,553</u>	<u>54,421,880</u>	<u>125,939,009</u>
Changes from financing cash flows				
Proceeds from loans and borrowings	71,629,471	-	-	71,629,471
Repayment of borrowings	(42,545,557)	-	-	(42,545,557)
New leases during the year	-	1,107,616	-	1,107,616
Payment of lease liabilities	-	(2,235,837)	-	(2,235,837)
Total changes from financing cash flows	<u>29,083,914</u>	<u>(1,128,221)</u>	<u>-</u>	<u>27,955,693</u>
Other changes:				
Repayment of interest	-	(1,283,960)	-	(1,283,960)
Loan arrangement fees	(237,524)	-	-	(237,524)
Interest expense	9,613,081	1,602,565	-	11,215,646
Interest paid	(8,387,670)	-	-	(8,387,670)
Total liability-related other changes	<u>987,887</u>	<u>318,605</u>	<u>-</u>	<u>1,306,492</u>
Balance at 31 December 2022	<u>89,365,377</u>	<u>11,413,937</u>	<u>54,421,880</u>	<u>155,201,194</u>

35. REGULATORY CREDIT RISK RESERVE

	2023	2022
	Ushs '000	Ushs '000
As at January	581,944	-
Transfer (to)/ from retained earnings	234,729	581,944
At 31 December	<u>816,673</u>	<u>581,944</u>

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

The regulatory credit risk reserve figure is analyzed as follows:

	2023	2022
	Ushs '000	Ushs '000
Provisions as per FIA		
Specific provisions	2,381,747	2,629,134
General provisions	<u>1,856,626</u>	<u>1,495,406</u>
	<u>4,238,373</u>	<u>4,124,540</u>
Impairment assessment as per IFRS 9		
Stage 1	138,626	89,368
Stage 2	28,706	16,238
Stage 3	<u>3,254,368</u>	<u>3,436,990</u>
	<u>3,421,700</u>	<u>3,542,596</u>
Regulatory credit risk reserve (excess)	<u>816,673</u>	<u>581,944</u>

The prudential provisions in 2023 were higher than the IFRS provisions, and as such a regulatory reserve arose.

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

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

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

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

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

36. EVENTS AFTER THE REPORTING PERIOD

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

37. CURRENCY

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

38. CAPITAL COMMITMENTS

The Bank had no capital commitments as at 31 December 2023 (2022: NIL)

39. CONTINGENT ASSETS

The Bank entered into a tenancy Agreement with the Defendant for his premises in Mbale in 2021 for purposes of opening and operating its offices. An advance of the rent was made in the sum of Ushs. 60 million pending refurbishment and completion of the building, and handover thereof. The Defendant breached the Agreement in failing/ refusing to handover the premises frustrating the contract. The Bank terminated and sought a refund of the rent advanced. The matter is undergoing hearing and based on legal advice, the Directors are confident that the Bank shall receive favourable ruling from the case.

40. CONTINGENT LIABILITIES

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

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

a) Capital gains tax on disposal of shares

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

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

On 20 May 2022, URA issued a private ruling on the applicability of the Double Taxation Agreement (DTA) between Uganda and Netherlands in respect of the disposal of shares by BRAC BV. In the private ruling Uganda Revenue Authority (URA) noted that Through Sections 75(2) and 79(ga) of the Income Tax Act (ITA) BUBL is taxable on any gains. URA indicated that the DTA between Uganda and Netherlands does not extend to BRAC Uganda Bank Limited (BUBL). BUBL shared the information requested for by URA to compute the tax liability and awaits their response. Based on the documents provided, URA computed a capital gain of UGX 26,531,338,000/=

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

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

40. CONTINGENT LIABILITIES (Continued)

b) TIN deactivation request

Upon transformation in 2019, BUBL obtained its own Tax Identification number (TIN) independent from the TIN BRAC Uganda Microfinance Limited (BUBL). The BUBL TIN remained operational pending clearance of all the per-transformation taxes. The Bank applied to URA to deactivate the TIN for BUBL. As part of the procedures to deactivate the TIN, a compliance review was carried out by URA to ensure that there are no outstanding liabilities on the TIN. As such URA reviewed the BUBL tax ledgers and noted there were outstanding liabilities which were cleared by BUBL 31 December 2023 now pending the approval of the TIN deactivation request from URA.

41. ASSETS AND LIABILITIES MATURITY ANALYSIS

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2023 to the contractual maturity date.

31 December 2023	Within 12 months	After 12 months	Total
	Ushs '000	Ushs '000	Ushs '000
Assets			
Cash and Bank with the central bank	1,678,364	-	1,678,364
Deposits due from other financial Institutions	37,813,574	-	37,813,574
Loans and advances to customers	180,033,569	4,146,254	184,179,823
Other assets	3,908,873	-	3,908,873
Related party receivable	4,947,764	-	4,947,764
Tax recoverable	41,911	-	41,911
Deferred tax asset	-	7,445,802	7,445,802
Property and equipment	-	6,932,904	6,932,904
Right of use	-	8,474,810	8,474,810
Work in progress	-	3,041,420	3,041,420
Intangible assets	-	7,107,659	7,107,659
Total assets	<u>228,424,055</u>	<u>37,148,849</u>	<u>265,572,904</u>
Liabilities			
Loan security fund	32,127,848	290,000	32,417,848
Customer deposits	76,119,464	-	76,119,464
Related party payables	4,967,514	-	4,967,514
Borrowings and managed funds	30,899,904	43,628,351	74,672,267
Other liabilities	8,827,917	-	8,827,917
Donor funds	5,183,174	-	5,183,174
Lease liabilities	2,732,196	7,741,220	10,473,416
Total liabilities	<u>160,858,017</u>	<u>51,659,571</u>	<u>212,661,600</u>
Net assets	<u>67,566,038</u>	<u>(14,510,722)</u>	<u>52,911,304</u>

BRAC UGANDA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

41. ASSETS AND LIABILITIES MATURITY ANALYSIS (CONTINUED)

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

31 December 2022	Within 12 months	After 12 months	Total
	Ushs '000	Ushs '000	Ushs '000
Assets			
Cash and Bank with the central bank	1,409,526	1,000,000	2,409,526
Deposits due from other financial Institutions	67,810,646	-	67,810,646
Loans and advances to customers	146,366,721	3,369,635	149,736,356
Related party receivable	2,018,278	-	2,018,278
Tax recoverable	41,911	-	41,911
Work in progress	-	2,260,635	2,260,635
Property and equipment	-	9,393,084	9,393,084
Intangible assets	-	7,454,612	7,454,612
Right of use	-	9,757,322	9,757,322
Deferred tax asset	-	8,797,321	8,797,321
Other assets	3,241,776	-	3,241,776
Total assets	<u>220,888,858</u>	<u>42,032,609</u>	<u>262,921,467</u>
Liabilities			
Loan security fund	30,593,275	164,088	30,757,363
Customer deposits	64,101,856	-	64,101,856
Related party payables	2,860,208	-	2,860,208
Borrowings and managed funds	21,580,909	67,784,468	89,365,377
Other liabilities	8,001,287	-	8,001,287
Lease liabilities	3,680,261	7,733,676	11,413,937
Donor funds	1,711,361	2,798,567	4,509,928
Total liabilities	<u>132,529,157</u>	<u>78,480,799</u>	<u>211,009,956</u>
Net assets	<u>88,359,701</u>	<u>(36,448,190)</u>	<u>51,911,511</u>