

**BRAC UGANDA BANK LIMITED**  
**ANNUAL REPORT**  
**AND**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**BRAC UGANDA BANK LIMITED  
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS  
FOR YEAR ENDED 31 DECEMBER 2021**

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<b>CONTENTS</b>	<b>PAGE</b>
<b>Annual report</b>	
Corporate information	3
Directors' report	4-8
Statement of directors' responsibility	9
Independent auditor's report	10-13
<b>Audited financial statements:</b>	
Statement of comprehensive income	14
Statement of financial position	15
Statement of changes in equity	16
Statement of cash flows	17
Notes to the financial statements	18-83

**BRAC UGANDA BANK LIMITED  
CORPORATE INFORMATION  
FOR YEAR ENDED 31 DECEMBER 2021**

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**DIRECTORS**

Hon (Rtd) Mr. Justice Augustus Kania**	-	Chairperson (Up to August 2021)
Mr. Albert Obongonyinge**	-	Chairperson (Appointed August 2021)
Mr. David Tumwesigye Baguma**	-	Member
Ms. Margaret Mary Musana Akora**	-	Member
Mr. Shameran Abed*	-	Member
Ms. Hasina Akhter*	-	Member (Up to August 2021)
Ms. Orsolya Farkas***	-	Member
Ms. Susanne Decker****	-	Member (Appointed 18 January 2021)
Mr. Adiga Onesmus Jimmy **	-	Managing Director/CEO (Up to 31 December 2021)
Mr. William Maweje**	-	Executive Director/COO

\*Bangladeshi      \*\*Ugandan      \*\*\*Hungarian      \*\*\*\*German

**PRINCIPAL PLACE OF BUSINESS:** Kabuusu - Rubaga, Uganda  
Plot 201, Mengo  
P.O. Box 6582  
Kampala, Uganda

**REGISTERED OFFICE:** Kabuusu Rubaga, Uganda  
Plot 201, Mengo  
P.O. Box 6582  
Kampala, Uganda

**COMPANY SECRETARY:** AF Mpanga Advocates  
P.O. Box 1520  
Kampala, Uganda

**AUDITOR**

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

**BANKERS**

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

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

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

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

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

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

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

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

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

**BRAC UGANDA BANK LIMITED  
DIRECTORS' REPORT  
FOR YEAR ENDED 31 DECEMBER 2021**

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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 2021, which disclose the state of affairs of the Bank.

**(A) REGISTRATION**

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

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

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

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

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

**(B) VISION**

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

**(C) MISSION**

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

**(D) OUR VALUES**

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

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

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

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

**BRAC UGANDA BANK LIMITED  
DIRECTORS' REPORT (Continued)  
FOR YEAR ENDED 31 DECEMBER 2021**

**(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 2021, the Bank's regulatory ratios were as follows:

	2021	2020
	Ushs '000	Ushs '000
Tier 1 Capital	32,113,915	20,104,860
Tier 2 Capital	1,907,714	1,446,966
Total tier 1 + tier 2 capital	<u>34,021,629</u>	<u>21,551,826</u>
Total risk weighted assets	<u>182,163,607</u>	<u>198,234,732</u>
<b>Tier 1 capital ratio (Required 12.5% - 2021, 10% -2020)</b>	<b>17.63%</b>	<b>10.14%</b>
<b>Tier 2 capital ratio (Required 14.5% - 2021, 12%-2020)</b>	<b>18.68%</b>	<b>10.87%</b>

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 352 million as retainer fees (2020: Ushs 242 million).

**(I) CORPORATE GOVERNANCE**

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

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

As at 31 December 2021, the Board of Directors had nine Directors comprising of Executive and Non-Executive Directors (NEDs), with a deliberate skills blend from financial, social and legal practice. The Board of Directors composition for the reporting period was as indicated below:

Classification	Number
Executive Directors	2
Non-Executive Directors	7

**(I) CORPORATE GOVERNANCE (Continued)**

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

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

In furtherance of its oversight function, the Board and the Committees meet at least quarterly to consider matters relating to the performance and operations of the Bank. Below is the summary of the Committee composition and the Board and Board Committee meetings held during 2021.

<b>Meeting</b>	<b>Composition</b>	<b>Meetings held</b>
Full Board	8	4
Assets and Liabilities Committee	4	4
Human Resources and Compensation Committee	3	4
Audit Committee	2	4
Credit and Risk Committee	3	4
Social Performance Committee	2	1

During the year, there were changes that took place in the composition of the board committees as follows:

**Audit:** The membership reduced from three (3) to two (2) following the election of Director Albert Obongonyinge (former committee chairperson) as the Chairperson, Board of Directors. Mr David Baguma was elected the committee Chairperson.

**ALCO:** Like the Audit committee membership, the ALCO membership reduced from five (5) to four (4) following the exit of Director Albert Obongonyinge.

**Full Board:** Following the retirement of Hon (Rtd) Justice Augustus Kania, Director Albert Obongonyinge was elected as the Chairperson, Board of Directors from August 2021.

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

**(J) RISK MANAGEMENT**

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

**(K) MANAGEMENT STRUCTURE**

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

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

**(L) RELATED PARTY TRANSACTIONS**

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

**(M) FUTURE DEVELOPMENT PLANS**

The focus for 2022 shall be: driving business recovery through supporting client recovery post COVID 19 turbulence to ensure their retention, digitization and process automation to ensure efficiency in service delivery and drive talent development while focusing on growing of women in leadership and leveraging on performance management to drive productivity. The specific projects to support the recovery plan include:

1. Scale-up of Mobile push and pull (subject to Regulatory approval)
2. Review business procedures for process improvement to ensure quality, growth and improved turnaround time
3. Pilot and roll out of Agency Banking as means of bringing the bank services closer to the customer
4. Carrying financial literacy training for customer to drive savings culture

**(N) KEY ACHIEVEMENTS IN 2021**

1. Rolled out of the call centre, which improved communication with customers as well as cross selling of the bank's products.
2. Piloting of the mobile pull and push services to all staff and the six branches. Currently, over 9,225 customers and staff have enrolled for the service
3. Achieved full compliance with the Capital Adequacy requirements through the new capital injection and improved financial performance
4. Implemented the Internal Capital Assessment Plan (ICAAP) to enhance the bank's resilience for the entire spectrum of risks to which it is exposed.

**(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 2021, the Bank had 2,009 staff (2020: 2,097 staff). The female staff were 82% (83% in 2020).

**(Q) WELFARE OF EMPLOYEES**

**Relationship between management and employees**

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

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

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

**Training**

Capacity building remains critical for the bank staff and various trainings were conducted including: Delinquency Management, Customer Care, Microfinance Management Course, Small Enterprise Analysis, safeguarding policies and procedures, Psycho - social support, Change management and social performance management.

**(Q) WELFARE OF EMPLOYEES (Continued)**

**Medical assistance**

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

**Retirement benefits**

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

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

**(R) AUDITOR**

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

**(S) APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the directors at a meeting held on ..... 28 | 03 | ..... 2022.

**By order of the Board**

Signed: .....   SECRETARY

**BRAC UGANDA BANK LIMITED  
STATEMENT OF DIRECTORS' RESPONSIBILITIES  
FOR YEAR ENDED 31 DECEMBER 2021**

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

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

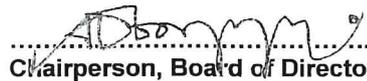
The directors have made an assessment of the ability of the Bank to continue as going concern and have no reason to believe that the business will not be a going concern for at least the next twelve months from the date of this statement.

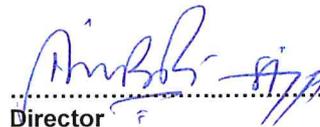
The auditor is responsible for reporting on whether the financial statements present fairly, in all material respects, the financial position of BRAC Uganda Bank Limited as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2012, the Financial Institutions Act, 2004, as amended by the Financial Institutions (Amendment) Act, 2016 and Financial Institutions Regulations, of Uganda.

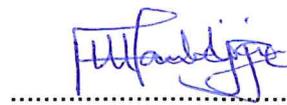
**Approval of the financial statements**

The financial statements of BRAC Uganda Bank Limited, as identified in the first paragraph, were approved by the Board of Directors on ..... 28/03/2022, and were signed on its behalf by:

By order of the Board:

  
.....  
Chairperson, Board of Directors

  
.....  
Director

  
.....  
Managing Director

  
.....  
Company Secretary

  
KAMPALA ADVOCATES  
COMPANY SECRETARY

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

### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

#### **Our opinion**

We have audited the financial statements of BRAC Uganda Bank Limited (the "Bank") set out on pages 14 to 83, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of BRAC Uganda Bank Limited as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2012, the Financial Institutions Act, 2004, as amended by the Financial Institutions (Amendment) Act, 2016 and Financial Institutions Regulations, of Uganda.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company 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.

#### **Other matter**

The financial statements of the Bank for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 30 April 2021.

#### **Key audit matters**

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

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

**REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)**

Key Audit Matter	How the matter was addressed in the audit
<p><b>Expected credit loss on loans and advances to customers</b></p> <p>The expected credit losses are based on a forward-looking approach that recognizes impairment loss allowances in accordance with IFRS 9 Financial Instruments. The estimation of expected credit losses requires the Bank to make significant judgements in the consideration of the following variables:</p> <ul style="list-style-type: none"> <li>• Allocation of loans to customers to stages 1, 2 and 3 in accordance with IFRS 9 based on: <ul style="list-style-type: none"> <li>▪ 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);</li> <li>▪ 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).</li> </ul> </li> <li>• Stratification of assets under different credit portfolio on the basis of the associated credit risk.</li> <li>• Assessment of the Probability of Default (PD) and the Loss Given Default (LGD).</li> <li>• The application of historical and forward- looking information, including macro-economic factors in the assessment of the PD.</li> <li>• 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.</li> <li>• Application of additional overlay adjustments to reflect factors that are not considered in the applied expected credit loss models.</li> </ul> <p>The COVID-19 pandemic affected the economy and business activities in the country. To mitigate the impacts of COVID-19, the Bank implemented various measures including according moratoria and restructuring of loans. These aspects have an impact on the parameters considered by the Bank when quantifying the expected credit losses on loans and advances to customers.</p> <p>Due to the significance of the amounts and significant judgements and related estimation uncertainty involved, the assessment of ECLs has been considered a key audit matter. The complexity of these estimates require management to prepare adequate disclosures to explain the key judgments and the key inputs into the ECL computations.</p>	<p>Our audit procedures included, but were not limited to, the following:</p> <ul style="list-style-type: none"> <li>• Assessed the accounting policies for compliance with IFRS 9 requirements;</li> <li>• Evaluated the ECL models including whether the assumptions applied, and the functioning and application of the models were in accordance with IFRS 9;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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.</li> <li>• Assessed whether disclosures made in the financial statements agreed to the audited balances and information, and whether they were in accordance with IFRS 9.</li> </ul>

**Other information**

The directors are responsible for the other information. The other information consists of the information included in the Company Information, Report of the Directors as required by the Companies Act, 2012 of Uganda, and Statement of Directors' Responsibilities, which we obtained prior to the date of this report, and the other information included in the Annual Report, which is expected to be made available to us after that date, other than the financial statements and our auditor's report thereon.

## **REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)**

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

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

### **Responsibilities of the directors for the financial statements**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### 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 Julius Rwajekare – P0307.

  
.....  
**Ernst & Young**  
Certified Public Accountants of Uganda  
Kampala

  
.....  
**Julius Rwajekare**  
Partner

29 April  
.....2022

**BRAC UGANDA BANK LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

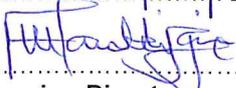
	Note	2021 Ushs '000	2020 Ushs '000
Interest income on loans and advances	5	77,249,729	50,302,783
Other interest income	6	4,536,547	6,123,077
Interest expense on borrowings	7(a)	(12,456,987)	(17,079,070)
Other finance costs	7(b)	(7,566,395)	(6,381,310)
<b>Net Income from service charge</b>		<b>61,762,894</b>	<b>32,965,480</b>
Membership fees and other charges	8	4,988,003	4,730,232
Net finance income	9	94,264	454,677
<b>Net trading income</b>		<b>66,845,161</b>	<b>38,150,389</b>
Expected credit loss on financial assets	16	(1,207,277)	(18,457,253)
<b>Operating income after impairment charges</b>		<b>65,637,884</b>	<b>19,693,136</b>
Grant income	27(c/d)	1,836,293	325,763
Staff costs	10	(37,136,454)	(34,941,173)
Other operating expenses	11	(21,877,550)	(16,273,319)
Depreciation of property and equipment	19	(4,177,395)	(3,839,430)
Amortization of software	21	(735,678)	(661,872)
Depreciation of right of use assets	22(i)	(2,329,098)	(2,555,254)
<b>Profit/(loss) before tax</b>		<b>1,218,002</b>	<b>(38,252,149)</b>
Income tax (charge)/credit	12.1	(534,076)	10,005,783
<b>Net profit/(loss) for the year</b>		<b>683,926</b>	<b>(28,246,366)</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year, net of tax</b>		<b>683,926</b>	<b>(28,246,366)</b>

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

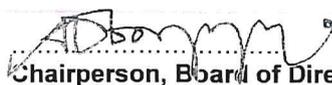
**BRAC UGANDA BANK LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2021**

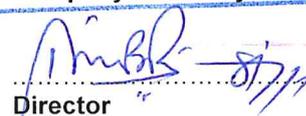
	Note	2021 Ushs '000	2020 Ushs '000
<b>ASSETS</b>			
Cash and balances with the central bank	13	2,666,322	2,956,130
Deposits and balances due from banks	14(a & b)	36,410,270	52,414,717
Loans and advances to customers	15	143,669,606	152,900,190
Other assets	18	2,936,671	3,231,640
Related party receivable	17.1	2,222,811	1,871,109
Income tax receivable	12(3)	81,350	-
Deferred tax asset	12(2)	9,458,625	9,831,731
Property and equipment	19	12,373,353	15,187,482
Right of use of asset	22(i)	11,022,430	11,970,207
Capital work in progress	20	2,563,122	3,489,711
Intangible assets	21	5,850,631	5,114,567
<b>Total assets</b>		<b>229,255,191</b>	<b>258,967,484</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Loan security fund	23	30,946,832	33,159,712
Deposits from customers	24	65,676,141	51,231,636
Related party payables	17.2	39,344	4,071
Borrowings	25	59,567,824	111,590,021
Other liabilities	26	5,717,663	5,652,917
Donor funds	27	4,222,048	5,154,679
Lease liabilities	22(iii)	12,223,553	12,908,749
Income tax payable	12(3)	-	509,719
<b>Total liabilities</b>		<b>178,393,405</b>	<b>220,211,504</b>
<b>Equity</b>			
Share capital	28	54,421,880	43,000,000
Retained earnings	28	(3,560,094)	(4,244,020)
<b>Total equity</b>		<b>50,861,786</b>	<b>38,755,980</b>
<b>Total liabilities and equity</b>		<b>229,255,191</b>	<b>258,967,484</b>

The financial statements on pages 14 to 83 were approved and authorized for issue by the Board of Directors on 28/03/2022 and were signed on its behalf by:

  
 Managing Director

  
 Company Secretary

  
 Chairperson, Board of Directors

  
 Director

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

**BRAC UGANDA BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	<b>Share capital</b> <b>Ushs '000</b>	<b>Retained earnings</b> <b>Ushs '000</b>	<b>Proposed dividends</b> <b>Ushs'000</b>	<b>Regulatory credit risk reserve</b> <b>Ushs'000</b>	<b>Total equity</b> <b>Ushs'000</b>
<b>At 1 January 2020</b>	<b>43,000,000</b>	<b>18,818,879</b>	<b>4,544,175</b>	<b>639,292</b>	<b>67,002,346</b>
Total comprehensive income for the year	-	(28,246,366)	-	-	-28,246,366
Proposed dividend	-	4,544,175	(4,544,175)	-	-
Transfer to regulatory credit risk reserve	-	639,292	-	(639,292)	-
<b>At 31 December 2020</b>	<b>43,000,000</b>	<b>(4,244,020)</b>	<b>-</b>	<b>-</b>	<b>38,755,980</b>
<b>At 1 January 2021</b>	<b>43,000,000</b>	<b>(4,244,020)</b>	<b>-</b>	<b>-</b>	<b>38,755,980</b>
Share capital received	11,421,880	-	-	-	11,421,880
Total comprehensive income for the year	-	683,926	-	-	683,926
<b>At 31 December 2021</b>	<b>54,421,880</b>	<b>(3,560,094)</b>	<b>-</b>	<b>-</b>	<b>50,861,786</b>

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

**BRAC UGANDA BANK LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 Ushs '000	2020 Ushs '000
<b>Operating activities</b>			
<b>Net cash flows from operating activities</b>	29	<b>17,605,692</b>	<b>7,522,480</b>
<b>Investing activities</b>			
Acquisition of fixed assets	19	(1,561,243)	(1,132,306)
Acquisition of soft ware	21	(88,061)	(76,424)
Investment in work in progress	20	(825,991)	(3,824,731)
<b>Net cash flows used in investing activities</b>		<b>(2,475,295)</b>	<b>(5,033,461)</b>
<b>Financing activities</b>			
Receipts from borrowings and managed funds during the year	25.1	19,026,354	48,925,480
Loan repayments during the year	25.1	(70,011,280)	(30,964,986)
Principal repayment of lease liabilities	22(ii)	(2,381,483)	(2,737,653)
Donor funds transfer to BRAC NGO	27(4)	(461,206)	(479,435)
Proceeds from issued share capital	28	11,421,880	-
Receipts of donor funds	27(a)	1,389,834	5,553,329
<b>Net cash flows (used in)/from financing activities</b>		<b>(41,015,901)</b>	<b>20,296,735</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(25,885,504)</b>	<b>22,785,754</b>
<b>Cash and cash equivalents at 1 January</b>		<b>40,832,953</b>	<b>17,881,470</b>
Net (decrease)/increase in cash and cash equivalents		<b>(25,885,504)</b>	<b>22,785,754</b>
Effects of movement in exchange rates		61,396	165,729
<b>Cash and cash equivalents at 31 December</b>	<b>30</b>	<b>15,008,845</b>	<b>40,832,953</b>
Additional information relating to cash flows from interest paid and income tax:			
Income taxes paid		(752,039)	(1,842,816)
Interest paid on borrowings		(13,647,727)	(16,167,742)
Interest paid - leases		(1,212,441)	(842,481)
Interest received		81,054,798	54,636,210

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**1. THE REPORTING COMPANY**

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

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

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

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

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

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

**2. BASIS OF ACCOUNTING**

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

**(i) Basis of measurement**

The financial statements are prepared under the historical cost convention.

**(ii) Functional and presentation currency**

These financial statements are presented in thousands of Uganda shillings (Ushs '000), which is the Bank's functional currency.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Use of estimates and judgment**

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

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

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

*(i) Impairment*

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

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

*(ii) Provisions and contingent liabilities*

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

*(iii) Income tax*

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

*(iv) Deferred tax*

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(a) Use of estimates and judgment (Continued)**

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.

*(v) Right of Use Asset*

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

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

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

*(vi) Useful life of property and equipment*

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

**b) Leases**

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

*(ii) With the Bank as lessee*

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**b) Leases (Continued)**

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

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

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

*(iii) Short-term leases and leases of low-value assets*

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

*(iv) Extension options*

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

**c) Property and equipment**

**(i) Recognition and Measurement**

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

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

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

**(ii) Depreciation**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Property and equipment (Continued)**

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

	<b>Percentage</b>
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.

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

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

**d) Foreign currency transactions**

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

**e) Other assets**

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

**f) Cash and cash equivalents**

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

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

**g) Provisions and other liabilities**

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**h) Income tax**

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

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

**i) Revenue recognition**

Revenue is recognized on an accrual basis.

**(i) Interest income on loans and advances**

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

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

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

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

**(ii) Membership fees and Other charges**

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

**(iii) Other Income**

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**j) Grants**

**(i) Donor Grants**

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

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

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

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

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

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

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

**(ii) Grant income**

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

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

**k) Loans and borrowings**

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

**l) Managed funds**

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

**m) Employee benefits**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Contingent liabilities**

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

**o) Related party transactions**

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

**p) Financial assets and financial liabilities**

**i. Recognition and initial measurement**

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

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

**ii. Classification**

**Financial assets**

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**p) Financial assets and financial liabilities (Continued)**

**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.

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (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.

**Financial liabilities**

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

**iv. Modifications of financial assets and financial liabilities**

**Financial assets**

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

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

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**p) Financial assets and financial liabilities (Continued)**

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

**Financial liabilities**

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, 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.

**v. Offsetting**

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

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

**vi. Fair value measurement**

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**p) Financial assets and financial liabilities (Continued)**

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

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

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

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

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

**vii. Impairment**

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

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

No impairment loss is recognized on equity investments.

**Measurement of ECL**

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

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

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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**p) Financial assets and financial liabilities (Continued)**

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

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

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

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

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. SIGNIFICANT ACCOUNTING POLICIES (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, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

**Presentation of allowance for ECL in the statement of financial position**

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

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

**Write-off**

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

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

**q) New and amended standards and interpretations**

Amendments and interpretations listed below apply for the first time in 2021, but do not have an impact on the consolidated financial statements of the Bank. The Bank has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

Effective for annual periods beginning on or after 1 January 2021

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**q) New and amended standards and interpretations (Continued)**

Effective for annual periods beginning on or after 1 April 2021

- Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

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

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

The following new International Financial Reporting Standards together with their Interpretations had been published at the date of preparation of the accompanying Financial Statements but are not mandatory as of December 31, 2020. Although in some cases the International Accounting Standards Board (“IASB”) allows early adoption before their effective date, the Bank has not proceeded with this option for any such new standards.

**Amendments to IAS 1: Classification of Liabilities as Current or Non-Current; (Effective for annual periods beginning on after 1 January 2023)**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

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

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

- IFRS 17 Insurance Contracts (effective for reporting periods beginning on or after 1 January 2023)
- Reference to the Conceptual Framework – Amendments to IFRS 3 (effective for annual reporting periods beginning on or after 1 January 2022)
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (effective for annual reporting periods beginning on or after 1 January 2022)
- IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities (effective for annual reporting periods beginning on or after 1 January 2022)
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective for annual reporting periods beginning on or after 1 January 2022)
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time Adopter (effective for annual reporting periods beginning on or after 1 January 2022)
- IAS 41 Agriculture – Taxation in fair value measurements (effective on or after the beginning of the first annual reporting period beginning on or after 1 January 2022)
- Definition of Accounting Estimates - Amendments to IAS 8 (effective for annual periods beginning or after 1 January 2023)
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (effective for annual periods beginning or after 1 January 2023)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 (effective for annual periods beginning or after 1 January 2023)
- 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)

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**4. GOING CONCERN**

As at 31 December 2021, the Bank was not compliant with debt covenants: Club lenders (FMO Entrepreneurial Development Bank, Triodos Investment Management BV, and Global Partnership Social Investment Fund), and Citibank. These had a total combined outstanding amount of Ushs 20,555,314,610 as at year-end. The consequence for the non-compliance is that the Bank may be compelled to pay the outstanding amounts on demand thereby resulting into contraction of the Bank's cash reserves which may further impair the Bank's ability to grow its loan book, meet its operational requirements and /or comply with the Bank of Uganda liquidity and leverage ratios.

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

- The borrowings due to the Club lenders are due for payment within the foreseeable future and hence these payments are already planned for in the Bank's budget. Moreover, the Bank's management is also engaging the lenders to approve waivers for the non-compliance and the discussions with the lenders are positive.
- On 20 April 2022, Citibank approved a waiver of the 2021 covenant breaches.

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.

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

Interest income calculated using the effective interest method.

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Group loans	58,399,175	34,550,368
Small Enterprises program	15,603,355	11,769,219
Agriculture group loans	29,630	66,085
Agriculture line of credit	24,134	4,090
Empowerment and Livelihood of Adolescents (ELA)	273,629	1,218,887
Staff loan	135,281	45,468
Community Health Promoters (CHP)	169	30
Loan appraisal fees	2,784,356	2,648,636
<b>Total</b>	<b><u>77,249,729</u></b>	<b><u>50,302,783</u></b>

**6. OTHER INTEREST INCOME**

Other interest income calculated using the effective interest method

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Interest income on current accounts	421,767	483,656
Interest income on deposits with banks	4,114,780	5,639,421
<b>Total</b>	<b><u>4,536,547</u></b>	<b><u>6,123,077</u></b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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

Interest expense calculated using the effective interest method

	<b>2021</b>	<b>2020</b>
<b>Lender</b>	<b>Ushs '000</b>	<b>Ushs '000</b>
Bank of Africa	670,109	1,362,200
Oiko Credit	373,759	988,161
Stromme Microfinance	-	165,000
FMO Entrepreneurial Development Bank	2,875,152	3,581,070
Triodos Investment Management (TIM)	2,913,447	3,684,782
Global Partnership (GP)	1,428,326	1,787,805
aBi Trust	1,497,774	1,535,430
BRAC Africa loan fund	-	1,804,764
BRAC International	307,473	229,879
Citibank Uganda	1,691,886	1,935,595
Uganda Energy Credit Capitalization Company (UECCC)	200,000	4,384
SOLUTI	497,096	-
EADB	1,965	-
<b>Total</b>	<b>12,456,987</b>	<b>17,079,070</b>

**b) OTHER FINANCE COSTS**

Other finance costs calculated using the effective interest method

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Service charge	766,934	788,286
Interest expense on voluntary savings	5,019,954	3,650,091
Interest on lease liability	1,626,038	1,786,353
Withholding tax on interest	153,469	156,580
<b>Total</b>	<b>7,566,395</b>	<b>6,381,310</b>

The service charge relates to quarterly commitment fees for borrowings.

**8. MEMBERSHIP FEES AND OTHER CHARGES**

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Membership fee	317,577	187,235
Loan application fee	147,216	99,352
Other operating income	505,531	1,688,760
Recharge intercompany costs	297,388	210,226
Ledger fees	2,898,264	2,235,949
Other fees from banking operations	34,002	14,739
Administrative fee from credit life insurance	122,013	34,035
Income from written off loans	634,050	235,115
Sale of passbooks	31,962	24,821
<b>Total</b>	<b>4,988,003</b>	<b>4,730,232</b>

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**8. MEMBERSHIP FEES AND OTHER CHARGES (Continued)**

**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.

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

**9. NET FINANCE INCOME**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Unrealized foreign exchange gains	61,396	165,729
Realized foreign exchange gains	32,868	288,948
<b>Total</b>	<b>94,264</b>	<b>454,677</b>

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**10. STAFF COSTS**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Salaries	27,698,316	27,810,499
Special occasion	1,106,468	-
Contribution to defined contribution plan (NSSF - Employer)	2,785,104	2,789,290
Insurance for staff	1,528,553	1,357,953
Staff meals	2,532,005	2,066,857
Recruitment and relocation expense	426,825	13,796
Overtime	8,463	9,913
Group life insurance	101,642	46,482
Payment in lieu of notices	93,976	46,260
Provident fund	85,865	87,632
Staff training and development	307,436	571,363
Staff loan benefit	37,733	13,827
Leave days accrual	339,278	25,134
Home leave expense	84,790	102,167
<b>Total</b>	<b>37,136,454</b>	<b>34,941,173</b>

**11. OTHER OPERATING EXPENSES**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Occupancy expenses (11a)	5,344,260	4,523,901
Publication, advertising, and marketing costs	374,580	241,023
Travel and transportation	6,495,413	5,142,529
Maintenance and general expenses	1,311,354	718,708
Printing and office stationery	1,428,663	1,114,395
Insurance for assets	46,327	38,945
Insurance for cash	92,523	92,523
Bad debt/Interest write off	111,373	10,784
Software development and maintenance	1,732,733	1,030,832
Consultancy and legal services	2,147,560	1,494,389
Office equipment	158,019	145,793
Audit fees	205,197	248,713
Other tax expenses/licenses/penalties	518,360	21,923
Digitization costs	32,082	-
Provision for donations	53,120	-
Loan recovery costs	-	35,534
Governance/ board costs	415,038	339,361
Communication costs	1,410,948	1,073,966
<b>Total</b>	<b>21,877,550</b>	<b>16,273,319</b>

**11 (a) Occupancy expenses are analyzed as follows:**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Short term lease expenses	12,987	243,727
Utilities	697,421	468,542
Office cleaning	407,469	391,959
Security	4,226,383	3,419,673
<b>Total</b>	<b>5,344,260</b>	<b>4,523,901</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**12. TAXATION**

**12.1 Income tax charge/(credit)**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Rental income tax	160,970	-
Under provision for deferred tax in prior years	80,023	-
Under provision for current income tax in prior years	-	1,611,669
Deferred tax charge/(credit) (note 12.2)	293,083	(11,617,452)
<b>Income tax charge/(credit)</b>	<b>534,076</b>	<b>(10,005,783)</b>

The corporation tax rate is set at 30% of the profit/(loss)s 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.

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Profit/(loss) before taxation	1,218,002	(38,252,149)
<b>Tax calculated at 30% (2020: 30%)</b>	<b>365,401</b>	<b>(11,475,645)</b>
<b>Tax effect of:</b>		
Under provision for deferred tax in prior year	80,023	1,611,669
Rental income tax	160,970	-
Non-deductible expense and non-taxable income	(72,318)	(141,807)
<b>Income tax charge/(credit) for the year</b>	<b>534,076</b>	<b>(10,005,783)</b>
Effective corporation tax rate	<b>44%</b>	<b>26%</b>

**12.2 Deferred tax**

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

	<b>2020</b>	<b>Under provision of deferred tax in prior years</b>	<b>Movement</b>	<b>2021</b>
	<b>Ushs '000</b>	<b>Ushs'000</b>	<b>Ushs '000</b>	<b>Ushs '000</b>
Property and equipment	2,438,565	17,065	(192,788)	2,262,842
Right of use assets	(273,635)	(7,926)	(78,774)	(360,335)
Impairment and other provisions	(547,644)	-	(42,514)	(590,158)
Unrealized foreign exchange gains	56,738	-	18,467	75,205
Income tax losses carried forward	(11,505,755)	70,884	588,692	(10,846,179)
<b>Net deferred tax asset @ 30%</b>	<b>(9,831,731)</b>	<b>80,023</b>	<b>293,083</b>	<b>(9,458,625)</b>

The prior period adjustments relate to adjustments to right of use assets.

**2020**

	<b>2019</b>	<b>Movement</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>	<b>Ushs '000</b>
Property and equipment	2,286,002	(121,072)	2,164,930
Impairment and other provisions	(606,671)	59,027	(547,644)
Unrealized foreign exchange gains	106,391	(49,653)	56,738
Income tax losses carried forward	-	(11,505,755)	(11,505,755)
	<b>1,785,722</b>	<b>(11,617,453)</b>	<b>(9,831,731)</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**12. TAXATION (Continued)**

**12.3 Tax payable / (Recoverable)**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>At 1 January</b>	509,719	740,866
Charge for the period	160,970	-
Under provision for corporation tax in previous years	-	1,611,669
Corporation tax paid during the year	(689,935)	(1,730,859)
WHT paid during the year	(62,104)	(111,957)
<b>At 31 December</b>	<b>(81,350)</b>	<b>509,719</b>

**13 CASH AND BALANCES WITH THE CENTRAL BANK**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Cash in hand	1,666,322	1,956,130
Balances with the central bank	1,000,000	1,000,000
	<b>2,666,322</b>	<b>2,956,130</b>

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**

**14(a) Deposits with other banks**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Standard Chartered Bank	136,997	258,843
Bank of Africa	7,387,406	3,864,530
Centenary Bank	476,759	488,811
Equity Bank	96,666	54,080
DFCU Bank	7,185	57,630
Post Bank	131,674	218,173
Pride Microfinance Ltd	24,142	15,509
Tropical Bank	(28)	12,101
Stanbic Bank	4,146,827	9,229,281
Citibank	18,862	129,698
<b>Deposits with other banks</b>	<b>12,426,490</b>	<b>14,328,656</b>
<b>ECL allowance</b>	<b>(83,967)</b>	<b>(96,819)</b>
<b>Net deposits with other banks</b>	<b>12,342,523</b>	<b>14,231,837</b>

**14 (b) Placements with other banking Institutions**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Mercantile Bank	16,583,030	13,360,844
Pride Microfinance	2,571,836	3,060,082
FINCA MDI	-	7,495,118
DFCU Bank	-	2,820,959
Opportunity Bank	5,076,613	11,705,634
<b>Total</b>	<b>24,231,479</b>	<b>38,442,637</b>
<b>ECL allowance</b>	<b>(163,732)</b>	<b>(259,757)</b>
<b>Net placements with other banking institutions</b>	<b>24,067,747</b>	<b>38,182,880</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**14. DEPOSITS AND BALANCES DUE FROM BANKS (Continued)**

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Within 3 months	7,837,145	23,644,986
After 3 months	16,230,602	14,537,894
<b>Total</b>	<b>24,067,747</b>	<b>38,182,880</b>

The weighted average effective interest rates on deposits due from the banks were 10.88% (2020:12.25%) per annum. The carrying book values of the deposits with the banks approximate their fair values.

**Movement in Expected Credit Losses**

	<b>Bank balances</b>	<b>Placements</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
At 1 January 2020	31,009	308,410
Increase/(decrease) for the year	65,810	(48,653)
At 31 December 2020	96,819	259,757
Decrease during the year	(12,852)	(96,025)
<b>At 31 December 2021</b>	<b>83,967</b>	<b>163,732</b>

**15 LOANS AND ADVANCES TO CUSTOMERS**

**15.1 Loans and advances**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Microfinance Group loans	106,667,894	125,333,529
Small Enterprises Program	46,730,080	44,663,310
Empowerment and Livelihood of Adolescents (ELA) loans	57,140	2,308,014
Community Health Promoters (CHP) loans	15,320	-
Agriculture group loans	7,780	199,618
Agriculture line of credit	65,939	17,393
Staff loan	1,872,570	1,044,637
Loan modification	1,216,330	991,323
<b>Gross loans and advances</b>	<b>156,633,053</b>	<b>174,557,824</b>
<b>Expected credit losses</b>		
Stage 1	(15,428)	(60,104)
Stage 2	(8,836)	(218,849)
Stage 3	(12,939,183)	(21,378,681)
	<b>(12,963,447)</b>	<b>(21,657,634)</b>
<b>Net loans and advances to customers</b>	<b>143,669,606</b>	<b>152,900,190</b>

The weighted average effective interest rate on loans and advances to customers was 47.22% (2020: 27.95%) 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.

	<b>2021</b>	<b>2020</b>
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	163,202	193,731

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**15. LOANS AND ADVANCES TO CUSTOMERS (Continued)**

**15.2 Expected credit loss on loans and advances**

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
At 1 January	21,657,634	4,277,803
Charge for the year	1,541,161	19,431,419
Loan write-off	(10,235,348)	(2,051,588)
<b>At 31 December</b>	<b>12,963,447</b>	<b>21,657,634</b>
	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Charge to profit or loss</b>		
Net increase in provisions	1,541,161	19,431,419
Modification gain on loans and advances	(225,008)	(991,323)
<b>Net charge to profit or loss</b>	<b>1,316,153</b>	<b>18,440,096</b>

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

**15.3 Sectoral analysis of loans and advances to customers**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Agriculture	33,798,655	29,260,934
Mining and quarrying	720,547	623,659
Manufacturing	6,369,585	4,069,392
Trade and commerce	96,378,078	119,514,496
Transport and utilities	820,150	563,415
Building and construction	4,313,312	4,357,427
Other services	14,138,399	16,168,501
	<b>156,538,726</b>	<b>174,557,824</b>

**Impairment and provisioning policies**

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

**Measurement of Expected Credit Losses**

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

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

**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.

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**15. LOANS AND ADVANCES TO CUSTOMERS (Continued)**

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

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

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

Loans and advances are categorized into the following grades:

<b>Micro loans</b>		
<b>Status</b>	<b>Days in arrears</b>	<b>Loan category</b>
Stage 1	0-7	Performing
Stage 2	8-29	Performing with significant increase in credit risk
Stage 3:	Over 29	Non-performing
<b>Non-micro loans</b>		
<b>Status</b>	<b>Days in arrears</b>	<b>Loan category</b>
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**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Loans and advances (note 15.2)	1,316,153	18,440,096
Deposits with banks (note 14 C)	(12,852)	65,810
Bank balances (note 14 C)	(96,024)	(48,653)
<b>Total</b>	<b>1,207,277</b>	<b>18,457,253</b>

**17 RELATED PARTY DISCLOSURE**

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

**17.1 RELATED PARTY RECEIVABLES**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
BRAC International Holdings BV	650,541	649,472
BRAC Uganda NGO	1,572,270	1,221,637
	<b>2,222,811</b>	<b>1,871,109</b>

**17.2 RELATED PARTY PAYABLES**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
BRAC Bangladesh	39,344	4,071
	<b>39,344</b>	<b>4,071</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**17 RELATED PARTY DISCLOSURE (Continued)**

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 receivable from BRAC International BV holdings mainly relates to settlement of tax arrears made by the Bank on behalf of BRAC International. The payable to BRAC Bangladesh relates to the expatriates' staff provident fund.

**17.3 OTHER RELATED PARTY TRANSACTIONS DURING THE YEAR**

**i) Loans and advances to related party**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
To key management staff	109,289	195,573
<b>Total</b>	<b>109,289</b>	<b>195,573</b>
Interest earned on the loans	<b>212</b>	<b>494</b>

Loans and advances to customers as at 31 December 2021 include loans to Senior Managers (Heads of Departments/Section) of Ushs 109 million (2020: Ushs 196 million). The collective impairment relating to employee loans was Ushs 6,274 (2020: Ushs 409,224). The fair value of loans and advances approximates their carrying amounts. The loans are secured, have a maximum loan term of 3 years and the average interest rate charged is 9% per annum.

**ii) Key management compensation**

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Salaries and other short-term compensation	<b>2,385,209</b>	<b>2,140,294</b>

**iii) Directors' remuneration**

Fees for services of directors	<b>352,241</b>	<b>242,256</b>
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At 31 December 2021, there were no loans to directors and companies controlled by directors or their closely connected persons (2020: Ushs Nil).

**18 OTHER ASSETS**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Advance to suppliers	1,101,456	1,265,219
Prepaid rent	1,410	12,000
Prepaid insurance	1,404,852	1,234,691
WHT receivable	152,561	215,080
Provision for WHT receivable	(152,561)	-
Security deposits	-	1,800
Receivable from MTN	-	1,162
Employee receivables	77,559	51,185
Cash shortages recoverable	-	6,941
Deferred staff expense (Arising from fair value of staff loans)	77,146	68,201
Loan arrangement fees	274,248	375,361
<b>Total</b>	<b>2,936,671</b>	<b>3,231,640</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**19 PROPERTY AND EQUIPMENT**

	<b>Furniture Ushs '000</b>	<b>Equipment Ushs '000</b>	<b>Motor vehicles Ushs '000</b>	<b>Total Ushs '000</b>
<b>Cost</b>				
<b>At 1 January 2020</b>	<b>10,241,258</b>	<b>12,579,335</b>	<b>609,682</b>	<b>23,430,275</b>
Additions	83,624	1,048,682	-	1,132,306
Capitalization of capital work in progress	227,634	-	-	227,634
Disposal	(8,924)	(53,852)	(8,364)	(71,140)
<b>At 31 December 2020</b>	<b>10,543,592</b>	<b>13,574,165</b>	<b>601,318</b>	<b>24,719,075</b>
Additions	144,897	1,416,346	-	1,561,243
Disposal	(211,977)	(156,846)	-	(368,823)
<b>At 31 December 2021</b>	<b>10,476,512</b>	<b>14,833,665</b>	<b>601,318</b>	<b>25,911,495</b>
<b>Depreciation</b>				
<b>At 1 January 2020</b>	<b>2,410,905</b>	<b>3,046,262</b>	<b>298,890</b>	<b>5,756,057</b>
Charge for the year	1,233,705	2,495,751	109,974	3,839,430
Accumulated depreciation on disposal	(8,223)	(47,307)	(8,364)	(63,894)
<b>At 31 December 2020</b>	<b>3,636,387</b>	<b>5,494,706</b>	<b>400,500</b>	<b>9,531,593</b>
Charge for the year	1,241,027	2,826,393	109,975	4,177,395
Accumulated depreciation on disposal	(80,269)	(90,577)	-	(170,846)
<b>At 31 December 2021</b>	<b>4,797,145</b>	<b>8,230,522</b>	<b>510,475</b>	<b>13,538,142</b>
<b>Carrying amount</b>				
<b>At 31 December 2021</b>	<b>5,679,367</b>	<b>6,603,143</b>	<b>90,843</b>	<b>12,373,353</b>
<b>At 31 December 2020</b>	<b>6,907,205</b>	<b>8,079,459</b>	<b>200,818</b>	<b>15,187,482</b>

**20 CAPITAL WORK IN PROGRESS**

	<b>Computer soft ware Ushs '000</b>	<b>Computer hardware Ushs '000</b>	<b>Branch refurbishment Ushs '000</b>	<b>Total Ushs '000</b>
<b>Cost</b>				
<b>At 1 January 2020</b>	-	-	110,335	110,335
Additions	3,707,432	-	117,299	3,824,731
Capitalized	(217,721)	-	(227,634)	(445,355)
<b>At 31 December 2020</b>	<b>3,489,711</b>	<b>-</b>	<b>-</b>	<b>3,489,711</b>
Additions	825,991	-	-	825,991
Capitalized	(1,384,524)	-	-	(1,384,524)
Transfer to profit or loss	(368,056)	-	-	(368,056)
<b>At 31 December 2021</b>	<b>2,563,122</b>	<b>-</b>	<b>-</b>	<b>2,563,122</b>

The items included in the capital works in progress relate to advance payments on the agency banking platform and integration costs

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**21 INTANGIBLE ASSETS**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Cost</b>		
<b>At 1 January</b>	<b>6,354,221</b>	<b>6,060,076</b>
Additions	88,061	76,424
Capitalization of capital work in progress	1,384,524	217,721
Write off	(1,445)	-
<b>At 31 December</b>	<b>7,825,361</b>	<b>6,354,221</b>
<b>Depreciation</b>		
<b>At 1 January</b>	<b>1,239,654</b>	<b>577,782</b>
Charge for the year	735,678	661,872
Write off	(602)	-
<b>At 31 December</b>	<b>1,974,730</b>	<b>1,239,654</b>
<b>Net carrying amount</b>		
<b>At 31 December</b>	<b>5,850,631</b>	<b>5,114,567</b>

The intangibles relate to the core banking system, Audit system, HRM system, SMS integration, ESB and CRB installation services.

**22 LEASES**

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

**(i) Right-of-use assets**

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Cost</b>		
<b>At 1 January</b>	<b>17,987,947</b>	<b>15,252,290</b>
Additions	1,527,579	2,791,048
Termination of lease	(670,854)	(55,391)
<b>At 31 December</b>	<b>18,844,672</b>	<b>17,987,947</b>
<b>Depreciation</b>		
<b>At 1 January</b>	<b>6,017,740</b>	<b>3,496,595</b>
Charge for the year	2,329,098	2,555,254
Termination of lease	(524,596)	(34,109)
<b>At 31 December</b>	<b>7,822,242</b>	<b>6,017,740</b>
<b>Carrying amount</b>		
<b>At 31 December</b>	<b>11,022,430</b>	<b>11,970,207</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**22 LEASES (Continued)**

As at 31 December 2021, the future minimum lease payments under non-cancellable operating leases were as follows.

**Maturity analysis – Contractual undiscounted cash flows**

	<b>2021</b>	<b>2020</b>
	<b>Ushs'000</b>	<b>Ushs'000</b>
Less than one year	3,297,719	3,296,363
Between one and five year	13,544,177	13,825,274
More than five years	587,040	1,758,000
<b>Total undiscounted lease liabilities at 31 December</b>	<b>17,428,936</b>	<b>18,879,637</b>

**(i) Amounts recognized in profit or loss**

	<b>2021</b>	<b>2020</b>
	<b>Ushs'000</b>	<b>Ushs'000</b>
<b>Leases under IFRS 16</b>		
Interest on lease liability	(1,626,038)	(1,786,353)
Income from sub leasing right of use assets	297,388	210,226
Depreciation expense of right-of-use assets	(2,329,098)	(2,555,254)
Gain on termination of lease *	98,631	-
Expenses relating to short term leases	13,487	243,727
	<b>(3,545,630)</b>	<b>(3,887,654)</b>

\*The disposal related to the building which accommodated the Mbarara Branch which collapsed during the year.

**(ii) Amounts recognized in the statement of cash flows**

	<b>2021</b>	<b>2020</b>
	<b>Ushs'000</b>	<b>Ushs'000</b>
Interest expense payment	1,212,441	842,481
Principal repayment	2,381,483	2,737,653
<b>Total cash outflow for leases</b>	<b>3,593,924</b>	<b>3,580,134</b>

**(iii) Lease liabilities**

As at 1 January	12,908,749	11,911,481
New leases	1,527,579	2,791,049
Interest expense	1,626,038	1,786,353
Termination of lease	(244,889)	-
Repayment of the principal portion	(2,381,483)	(2,737,653)
Repayment of interest	(1,212,441)	(842,481)
<b>At 31 December</b>	<b>12,223,553</b>	<b>12,908,749</b>

**23 LOAN SECURITY FUND**

	<b>2021</b>	<b>2020</b>
	<b>Ushs'000</b>	<b>Ushs'000</b>
Opening balance	33,159,712	34,460,912
Received during the year	10,775,245	11,041,351
Paid off	(12,988,125)	(12,342,551)
<b>Closing balance</b>	<b>30,946,832</b>	<b>33,159,712</b>

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.

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**24 DEPOSITS FROM CUSTOMERS**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Savings accounts	13,820,536	11,917,318
Corporate accounts	2,279,531	6,509,338
Fixed deposits	49,576,074	32,804,980
<b>Total</b>	<b>65,676,141</b>	<b>51,231,636</b>

The weighted average effective interest rate on deposits from customers is 6% (2020: 5.42%) per annum.

**25 BORROWINGS AND MANAGED FUNDS**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Borrowed funds</b>		
Bank of Africa (ii)	1,503,692	6,998,270
Oiko Credit (v)	-	4,496,138
FMO Entrepreneurial Development Bank (vi)	3,875,795	22,387,336
Triodos Investment Management (vii)	3,872,698	22,401,585
Global Partners (viii)	1,935,399	11,179,851
aBi Trust and Finance (v)	9,851,631	12,587,745
BRAC International Senior debt (iv)	9,300,928	6,427,572
BRAC International Subordinated debt(iv)	498,704	-
Citi Bank (iii)	10,871,423	14,763,437
UECCC (ix)	4,000,000	4,004,383
SOLLUTI (xii)	6,023,301	-
East African Development Bank (EADB) (xi)	1,994,465	-
<b>Managed Funds</b>		
Kiva (i)	629,667	998,761
Mastercard Foundation (x)	5,210,121	5,344,943
<b>Total</b>	<b>59,567,824</b>	<b>111,590,021</b>

**i) Kiva**

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

Funds received in 2021 were USD 75,722 and also repaid USD 138,683 in the year. The facility has an outstanding balance of USD 175,976. The loan has no security and there is no interest rate attached to it.

**ii) Bank of Africa**

In March 2019, BRAC Uganda Bank Limited obtained a loan from Bank of Africa amounting to Ushs 15 billion equivalent to USD 4,092,535 for a period of 3 years. Interest and principal is paid on a quarterly basis at a rate of 14% p.a. The loan is tagged to T-bill of 182 day and the outstanding balance is Ushs 1.5 billion maturing in March 2022. 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 2021 was 13.03%. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio and the outstanding balance is Ushs 10.9 billion.

**25 BORROWINGS AND MANAGED FUNDS (Continued)**

**iv) BRAC International Holdings BV**

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 semiannual 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 2021 the facility has an outstanding balance of USD140,706 equivalent to Ushs498,704,275.

In December 2021, BRAC International Holdings BV extended another short-term loan facility of USD 2.5 million for a period of three month at an interest rate of 5% per annum. Interest and principal are paid on a monthly basis. The facility has an outstanding balance of USD of 2.5 million equivalent to Ushs 8.9 billion that is not secured.

**v) aBi 2020 Limited**

In October 2019, a loan agreement was signed between BRAC Uganda Bank Limited and aBi Finance limited amounting to Ushs 10 billion. The principle is repayable within 4 years and attracts an interest rate of minimum 12.8% pa with six months grace period for principal. The Company changed its name to aBi 2020 Limited in 2020. The amount was disbursed on the 1 October 2019. Principal and interest payments are made on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. This facility is tagged to 182Tb+2%. The outstanding loan balance is Ushs 8.9 billion.

In July 2017, a loan agreement was signed between BRAC Uganda Bank Limited and aBi 2020 limited amounting to Ushs 6 billion. The principle is repayable within 4 years and attracts an interest rate of minimum 14% pa with six months grace period for principal. 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 903,728,182.

**vi) FMO Entrepreneurial Development Bank**

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

**vii) Triodos Investment Management**

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

**viii) Global Partnership**

In June 2017, BRAC Uganda Bank Limited obtained a loan from Global partners, the loan agreement was for a total principal loan amount of USD 2 million for a period of 4 years and disbursed in 4 tranches. The first tranche of USD 800,000 was disbursed in July 2017 at an interest rate of 16.63% and the second tranche was disbursed in December 2017 of USD 500,000 at an interest rate of 15.10%. The final disbursements of Ushs 3.3 billion and 3.1 billion equivalent USD 1,679,510 were drawn down in 2018 at an

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**25 BORROWINGS AND MANAGED FUNDS (Continued)**

interest rate of 13.9% and 17% respectively. The loan principal repayments were to commence in June 2020 but the principal payment for June 2020 was deferred to June 2022 and booked as a separate tranche as per the agreement at an interest rate of 17.49%. The outstanding loan balance is USD 547k. The loan is not secured.

**ix) Uganda Energy Credit Capitalization Company (UECCC)**

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

**x) Mastercard Foundation**

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

**xi) East Africa Development Bank**

In December 2021, BRAC Uganda Bank Limited signed a loan from EADB amounting to Ushs 4.3 billion at an interest rate of 12% per annum for a period of 5 years with a one-year grace period. Interest and principal is paid on a quarterly basis. During 2021, the Bank drew down Ushs 1.9 billion. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio. The outstanding balance of UGX 1.9 billion.

**xii) Soluti Finance East Africa**

In June 2021, BRAC Uganda Bank Limited obtained a loan from Soluti Finance amounting to Ushs 6 billion for a period of 4 years with a grace period of 6 months. This loan facility has two purposes, Ushs 2 billion for Agriculture loans at an interest rate of 12.25% and Ushs 4 billion for general business loans at an interest rate of 17.5% per annum. Interest and principal is paid on a quarterly basis. The loan is secured by a floating charge on BRAC Uganda Bank's loan portfolio and it's tagged to the T-bills 182 day the interest rate is being reviewed every six months. The outstanding balance of UGX 6.02 billion

**Value of security held**

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

**25.1 Analysis of movement in borrowings**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>At 1 January</b>	<b>111,590,021</b>	<b>92,751,968</b>
Receipts during the year	19,026,353	48,925,480
Interest expense	12,610,456	17,045,301
Payment of interest	(13,647,727)	(16,167,742)
Payments of principal during the year	(70,011,280)	(30,964,986)
<b>At 31 December</b>	<b>59,567,824</b>	<b>111,590,021</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**26 OTHER LIABILITIES**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Accruals for expenses	2,403,445	2,791,552
CRB fees payable	608,806	1,264,596
Staff leave provision	361,045	67,364
Accrual for audit fees	104,784	118,062
NSSF contributions payable	565,867	337,671
Excise duty	39,236	62,974
Tax withholdings payable	46,155	35,661
Credit life insurance premium payable	198,134	209,869
PAYE payable	1,000,391	482,376
Unclaimed bank credits	153,934	46,536
Credit life insurance claim payable	187,597	139,255
Other liabilities	48,269	70,178
Salary accruals	-	26,776
Stamp duty accruals	-	47
<b>Total</b>	<b>5,717,663</b>	<b>5,652,917</b>

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

**27 DONOR FUNDS**

	<b>Note</b>	<b>2021</b>	<b>2020</b>
		<b>Ushs '000</b>	<b>Ushs '000</b>
Donor funds received in advance	<b>27(a)</b>	4,187,245	5,106,517
Donor funds investment in fixed assets	<b>27(c)</b>	34,803	48,162
<b>Total</b>		<b>4,222,048</b>	<b>5,154,679</b>

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.

**27(a) Donor funds received in advance**

	<b>Note</b>	<b>2021</b>	<b>2020</b>
		<b>Ushs '000</b>	<b>Ushs '000</b>
Opening balance		5,106,517	337,876
Donations received during the year	<b>27(b)</b>	1,389,834	5,553,330
Transferred to statement of comprehensive income	<b>27(d)</b>	(1,847,900)	(305,254)
Transferred to BRAC NGO	<b>27(d)</b>	(461,206)	(479,435)
<b>Closing balance</b>		<b>4,187,245</b>	<b>5,106,517</b>

**27(b) Donations received during the year**

<b>Name of donor</b>		<b>2021</b>	<b>2020</b>
		<b>Ushs '000</b>	<b>Ushs '000</b>
Grameen Foundation		-	1,540,094
BRAC International		-	75,427
ACCION		-	24,966
Mastercard Foundation		-	2,743,463
World Savings Organization		265,375	1,099,337
Triple Jump		-	70,043
European Investment Bank		634,530	-
FMO		307,241	-
UECCC		10,000	-
DEG		172,688	-
		<b>1,389,834</b>	<b>5,553,330</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**27 DONOR FUNDS (Continued)**

**27(c) Donor funds investment in fixed assets**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Opening balance	48,162	68,672
Transferred to statement of comprehensive income - grant income	(13,359)	(20,510)
<b>Closing balance</b>	<b>34,803</b>	<b>48,162</b>

**27(d) Grant utilization**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Transferred to statement of comprehensive income from donor funds - grant income	1,822,934	305,254
Transferred to other operating income (Note 8)	24,966	-
Total transferred to statement of comprehensive income	1,847,900	305,254
Transferred to BRAC Uganda NGO	461,206	479,435
<b>Total</b>	<b>2,309,106</b>	<b>784,689</b>

**28 SHARE CAPITAL**

During the year, the authorized issued and paid ordinary shares was increased from 4,300,000 shares to 5,442,188 shares with a nominal value of Ushs 10,000. Each share is entitled to one vote. As at 31 December 2021, the shareholding structure of the Bank was as below:

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

2020

	<b>As at 1 January 2020</b>	<b>As at 31 December 2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
BRAC International Holdings BV	21,070,000	21,070,000
Deutsche Investitions und Entwicklungsgellschaft mbH	7,310,000	7,310,000
ASN Microkerdietpool	7,310,000	7,310,000
Shore Cap 111, LP	7,310,000	7,310,000
<b>Total</b>	<b>43,000,000</b>	<b>43,000,000</b>

There is no single controlling party.

**RETAINED EARNINGS**

This comprises of prior year profits, 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 (2020: Nil).

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**29 CASH FLOWS FROM OPERATING ACTIVITIES**

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Operating activities</b>		
<b>Profit / (loss) before tax</b>	<b>1,218,002</b>	<b>(38,252,149)</b>
<b>Adjustments for:</b>		
Depreciation and amortization	7,242,171	7,056,553
Release of deferred income on donor assets	(1,861,260)	(325,763)
Unrealized foreign exchange gains	(61,396)	(165,729)
Leases write off	(244,889)	-
Expensing of cost incurred on work in progress	368,056	-
Loss on disposal of property, equipment and RoU assets	345,079	28,528
ECL impairment provision expense	1,207,278	18,440,096
Interest expense - leases	1,626,038	1,786,353
Interest expense - borrowings	12,610,456	17,045,301
<b>Cash flow before changes in working capital</b>	<b>22,449,535</b>	<b>5,613,190</b>
<b>Changes in working capital</b>		
Decrease in loans and advances	7,914,429	16,590,549
Decrease/ (increase) in other assets	294,969	(1,267,852)
(Increase)/ decrease in related party receivables	(351,702)	487,334
Increase in short term deposits	(9,420,976)	(424,525)
Increase /(decrease) in related party payables	35,273	(24,981,373)
Increase/(decrease) in other liabilities	64,746	(1,021,478)
Increase in voluntary deposits	14,444,505	32,680,874
Decrease in loan security fund	(2,212,880)	(1,301,200)
<b>Cash inflow from operations</b>	<b>33,217,899</b>	<b>26,375,519</b>
Income taxes paid	(752,039)	(1,842,816)
Interest paid on borrowings	(13,647,727)	(16,167,742)
Interest paid - leases	(1,212,441)	(842,481)
<b>Net cash inflow from operating activities</b>	<b>17,605,692</b>	<b>7,522,480</b>

**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.

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Cash on hand and balances with Bank of Uganda	2,666,322	2,956,130
Deposits with other financial institutions	12,342,523	14,231,837
Investments with other financial institutions with a 3-month tenor	-	23,644,986
	<b>15,008,845</b>	<b>40,832,953</b>

**31. FINANCIAL RISK MANAGEMENT**

**CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Financial assets</b>		
Cash and balances with Bank of Uganda (Note 13)	2,666,322	2,956,130
Deposits and balances due from banks (Note 14(a&b))	36,410,270	52,414,717
Loans and advances to customers (Note 15)	143,669,606	152,900,190
Related party receivable (Note 17.1)	2,222,811	1,871,109
Other assets	<u>1,453,263</u>	<u>1,701,668</u>
	<b>186,422,272</b>	<b>211,843,814</b>
<b>Financial liabilities</b>		
Loan security fund (Note 23)	30,946,832	33,159,712
Deposits from customers (Note 24)	65,676,141	51,231,636
Related party payables (Note 17(2))	39,344	4,071
Borrowings (Note 25)	59,567,824	111,590,021
Other liabilities	3,704,969	4,640,048
Lease liabilities (Note 22(iii))	<u>12,223,553</u>	<u>12,908,749</u>
	<b>172,158,663</b>	<b>213,534,237</b>

**a) Introduction and overview**

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

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

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

**Risk management framework**

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

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

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

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**Risk management framework (Continued)**

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

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

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

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

**Abridged view of BUBL's Risk Management Framework**

**b) Strategic risk management**

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

**b) Strategic risk management**

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

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**b) Strategic risk management (Continued)**

**Key**

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

**Management of strategic risks**

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

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

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

**c) Compliance risk management**

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

**Management of compliance risk**

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

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

**d) Capital risk management**

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

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**d) Capital risk management (Continued)**

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

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Other liabilities	5,717,663	5,652,917
Due to related parties	39,344	4,071
Borrowings	59,567,824	111,590,021
Less: Cash and cash equivalents	<u>(15,008,845)</u>	<u>(40,832,953)</u>
<b>Net debt</b>	<b>50,315,986</b>	<b>76,414,056</b>
Equity	<u>50,861,786</u>	<u>38,755,980</u>
<b>Capital and net debt</b>	<b><u>101,177,772</u></b>	<b><u>115,170,036</u></b>

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

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

The Financial Institutions Act requires each Tier 2 Institution to:

- Hold a minimum level of the regulatory capital of Ushs 1,000,000,000 (One billion);
- Maintain a ratio of total regulatory capital to the risk weighted assets of not less than 14.5% and;
- Maintain core capital of not less than 12.5% of risk weighted assets.
- Effective 31 December 2020 the minimum capital requirement were raised from 10% and 12% to 12.5% and 14.5% for core and total capital respectively

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

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

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**d) Capital risk management (Continued)**

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>CORE CAPITAL (Tier 1)</b>		
Paid up share capital	54,421,880	43,000,000
Retained earnings	(3,560,094)	(4,244,019)
<b>Less: deductions determined by the FIA</b>		
Goodwill and other intangible assets*	(8,413,752)	(8,604,278)
Deferred income tax asset	(9,458,625)	(9,831,731)
Unrealized foreign exchange gains	(875,494)	(215,112)
<b>Total Core Capital</b>	<b>32,113,915</b>	<b>20,104,860</b>
<b>SUPPLEMENTARY CAPITAL (Tier 2)</b>		
Unencumbered general provisions for losses	1,409,010	1,446,966
Subordinated debt	498,704	-
<b>Total Supplementary Capital</b>	<b>1,907,714</b>	<b>1,446,966</b>
<b>TOTAL CAPITAL (Tier 1+Tier 2)</b>	<b>34,021,629</b>	<b>21,551,826</b>

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

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

	Financial position nominal amount		Risk weighting	Risk weighted assets	
	2021	2020		2021	2020
	Ushs'000	Ushs'000		Ushs'000	Ushs'000
Notes and coins	1,666,322	1,956,130	0%	-	-
Balances with Bank of Uganda	1,000,000	1,000,000	0%	-	-
Balances with banks in Uganda before ECL	36,502,153	28,621,566	20%	7,300,431	5,724,313
Balances with other institutions in Uganda before ECL	155,816	24,149,726	20%	31,163	4,829,945
Loans net of provisions	146,195,397	155,420,036	100%	146,195,397	155,420,036
Premises and other fixed assets	23,395,784	27,157,689	100%	23,395,784	27,157,689
Other assets**	5,240,832	5,102,749	100%	5,240,832	5,102,749
<b>Total risk weighted assets</b>	<b>214,156,304</b>	<b>243,407,896</b>		<b>182,163,607</b>	<b>198,234,732</b>

Capital			FIA Regulatory ratios	Ratio	
	2021	2020		2021	2020
	Ushs'000	Ushs'000		(%)	(%)
Tier 1 Capital (Min ratio -10% (2020), 12.5% (2021))	32,113,915	20,104,860	12.5%	17.63	10.14
Tier 1 and Tier 2 Capital (Min ratio – 12% (2020), 14.5% 2021)	34,021,629	21,551,826	14.5%	18.68	10.87

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**d) Capital risk management (Continued)**

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
Gross loans and advances	161,022,569	181,430,341
Specific provisions for loans and advances	(10,546,579)	(19,264,768)
Interest in suspense	(4,280,593)	(6,745,537)
<b>Net loans and advances</b>	<b><u>146,195,397</u></b>	<b><u>155,420,036</u></b>

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>As per Capital ratio Computations</b>		
Balance with Banks	17,478,961	28,621,566
Balance with other Institutions in Uganda	19,179,008	24,149,727
<b>Total per Capital Computation</b>	<b><u>36,657,969</u></b>	<b><u>52,771,293</u></b>
Less: Impairment Allowances	(247,699)	(356,576)
<b>Balance per statement of financial position</b>	<b><u>36,410,270</u></b>	<b><u>52,414,717</u></b>

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

**BASEL II implementation**

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

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

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

BOU has commenced the implementation of Basel II. It is expected that parallel run of both BASEL I and II will be conducted commencing 30th June 2021 to 31st December 2021 and thereafter full transition effective from 1st January 2022.

**Capital Buffers**

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

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**d) Capital risk management (Continued)**

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

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

**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 shall submit reports annually to Bank of Uganda

**e) Credit risk**

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

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

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

**COVID-19 Pandemic Consideration**

The measures to slow the spread of Covid-19 have had a significant impact on the global economy and continued to affect countries and businesses at the time of issuing these financial statements. The risks arising from this pandemic could include market, services and supply chain disruptions, unavailability of key people resources, locations being quarantined, among others.

The Bank took various measures in line with the recommendations of the WHO and Ministry of Health to preserve the health of employees and support the prevention of contagion in administrative and operational areas, such as working from home, cleaning of workplaces, distribution of personal protective equipment, testing of suspected cases and measuring body temperature for all individuals entering the Bank's premises.

The Directors and management have taken into consideration the existing and anticipated effects of the pandemic on the Bank's activities and considered the available information about the foreseeable future. The Bank's directors and management have assessed that, at the time of issuing these financial statements, it was impracticable to determine and disclose the quantitative extent of the possible effects of the pandemic on the Bank.

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

### **31. FINANCIAL RISK MANAGEMENT (Continued)**

#### **e) Credit risk (Continued)**

The Bank's Directors and management will continue to manage the operations closely during the pandemic including taking all necessary remedial actions to ensure continuity of operations.

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

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

From the analysis the two factors that were considered as those with the strongest relationship to the Banks's NPL were CBR for micro loans and terms of trade for non- micro loans. The Bank also introduced a dummy variable to represent the pandemic in its forward-looking information. The pandemic is a dummy variable with a binary input where 1 means the presence of a pandemic and 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 40%, 20% and 40% respectively from 50%, 30% and 20% respectively because of the assumption that it is impossible for the economy to boom in the near term and thus a 20% chance was chosen for the best-case scenario.

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

Refer to note 3 for the effect of Covid-19 Pandemic on the performance of the Bank.

#### **Use of estimates and judgements**

There have been no material revisions to the nature and estimates of amounts reported in prior periods. However, the effects of COVID-19 have required significant judgments and estimates to be made, including determining which information obtained subsequent to period end provides evidence of conditions that existed as at the end of the reporting period ('adjusting events after the reporting period') and which do not ('non-adjusting events after the reporting period')

#### **Use of assumptions**

The lingering effects of the COVID-19 pandemic continue to affect the Bank, countries and businesses at the time of issuing these financial statements. In spite of the relaxation of majority of the Government of Uganda COVID-19 directives, the second wave of the COVID-19 pandemic and the associated lockdown delayed the recovery of businesses and disrupted the Bank's operations.

The Bank's management and directors closely monitored the COVID-19 situation, economic developments in the key markets and sectors and undertook appropriate actions where necessary, including enhanced monitoring, activating business continuity procedures, implementing credit relief measures, amending the Bank's risk appetite and/or reducing limits and exposures.

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) Credit risk (Continued)**

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

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

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

**Management of credit risk**

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

**Loan application process**

**a) Group guaranteed loan**

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

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

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

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

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

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

**b) Small Enterprise Product (Individual Loans)**

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

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) Credit risk (Continued)**

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

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

**Monitoring of collections**

**a) Group guaranteed loan**

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

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

**b) Small Enterprise Product (Individual Loans)**

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

**Impaired loans and advances**

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

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

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

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

	<b>2021</b>	<b>2020</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Balances with the central bank</b>	<b>1,000,000</b>	<b>1,000,000</b>
Deposits with other banks	12,342,523	14,231,837
Placements with other banking Institutions	24,067,747	38,182,880
Loans and advances to customers	143,669,606	152,900,190
Related party receivables	2,222,811	1,871,109
Other assets	1,453,263	1,701,668
	<b>184,755,950</b>	<b>209,887,684</b>

The above table represents the worst-case scenario of credit risk exposure to the Bank at 31 December 2021 and 31 December 2020 without considering any collateral held. The exposures are based on carrying amounts as reported in the statement of financial position.

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) Credit risk (Continued)**

**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.

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

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

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.

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>2021 Total</b>	<b>2020</b>
	<b>Ushs'000</b>	<b>Ushs'000</b>	<b>Ushs'000</b>	<b>Ushs'000</b>	<b>Ushs'000</b>
Loans and advances at amortized cost	135,137,884	4,939,814	16,555,355	156,633,053	174,557,824
Expected credit loss allowance	(15,428)	(8,836)	(12,939,183)	(12,963,447)	(21,657,634)
<b>Carrying amount</b>	<b>135,122,456</b>	<b>4,930,978</b>	<b>3,616,172</b>	<b>143,669,606</b>	<b>152,900,190</b>

**2020**

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) Credit risk (Continued)**

**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
	2021	2020	
Group loans	10%	10%	Cash
Non group loans	100%	100%	Cash (10%)/ Property (Land)
Staff loans	100%	100%	Property and equipment

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

	2021		2020	
	Carrying amount Ushs'000	Collateral Ushs'000	Carrying amount Ushs'000	Collateral Ushs'000
Stage 1 and 2	140,077,698	22,582,584	146,756,696	22,669,127
Stage 3	<u>16,555,355</u>	<u>3,652,035</u>	<u>27,801,128</u>	<u>6,727,493</u>
	156,633,053	26,234,619	174,557,824	29,396,620

2021	Maximum exposure Ushs'000	Fair value of collateral			Net exposure Ushs'000	Associated ECL
		Cash Ushs'000	Properties Ushs'000	Total collateral Ushs'000		
Loans and advances	143,669,606	3,652,035	22,582,584	26,234,619	117,434,987	12,963,447
<b>2020</b>						
Loans and advances	152,900,190	6,727,493	22,669,127	29,396,620	123,503,570	21,378,681

**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 2020 represent the allowance account for credit losses and reflect the measurement basis under IFRS 9.

	2021	2020
	12-month ECL Ushs '000	12-month ECL Ushs '000
Balance at 1 January	21,657,634	4,277,803
Change during the year	1,541,161	19,431,419
Financial assets derecognized	(10,235,348)	(2,051,588)
<b>Balance at 31 December</b>	<b>12,963,447</b>	<b>21,657,634</b>

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) Credit risk (Continued)**

**ECL disclosures for financial assets**

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

<b>2020</b>	<b>12-month ECL Ushs '000</b>	<b>Lifetime ECL not credit impaired Ushs '000</b>	<b>Lifetime ECL credit impaired Ushs '000</b>	<b>Total Ushs '000</b>
Cash and Bank	96,819	-	-	96,819
Short term deposits	259,757	-	-	259,757
Loans and advances	60,104	218,849	21,378,681	21,657,634
<b>Total</b>	<b>416,680</b>	<b>218,849</b>	<b>21,378,681</b>	<b>22,014,210</b>

**Inputs, assumptions, and techniques used for estimating impairment**

**Significant increase in credit risk**

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

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

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

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

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

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

**Generating the term structure of PD**

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

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

**Determining whether credit risk has increased significantly**

The entity considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due 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.

### **31. FINANCIAL RISK MANAGEMENT (Continued)**

#### **e) Credit risk (Continued)**

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.

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) 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*

	<b>Private Time and Savings Deposits (US\$ billion)</b>	<b>Inflation Core</b>	<b>Credit - Domestic (US\$ billion)</b>	<b>Terms of Trade</b>
As at 31 December 2021	9,923		28,733	98.39
As at 31 December 2020	8,752	0.05	24,499	126

*Micro portfolio*

**Central Bank Rate**

As at 31 December 2021	6.5%
As at 31 December 2020	7.55%

**Loss Allowance**

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

- Transfer between stage 1 and stage 2 or 3 due to financial instrument experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent step up (or step down) between 12 months and lifetime ECL;
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de recognised during the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to the models;
- Impact on the measurement of ECL due to changes made to the model or assumptions;
- 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.

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 2021**

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

**Year ended 31 December 2020**

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) Credit risk (Continued)**

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

**Cash and cash equivalents**

**Year ended 31 December 2021**

	<b>2021</b>	<b>2020</b>
	<b>Ushs'000</b>	<b>Ushs'000</b>
Balance as at 1 January	96,819	145,472
Net re-measurements of loss allowances	(12,852)	(48,653)
<b>Balance at 31 December</b>	<b>83,967</b>	<b>96,819</b>

**Year ended 31 December 2020**

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

**Deposits and balances due from banks**

**Year ended 31 December 2021**

	<b>2021</b>	<b>2020</b>
	<b>Ushs'000</b>	<b>Ushs'000</b>
Balance as at 1 January	259,757	193,947
Net re-measurements of loss allowances	(96,025)	65,810
New financial assets originated or purchased	-	-
Foreign exchange and other movements	-	-
<b>Balance at 31 December</b>	<b>163,732</b>	<b>259,757</b>

**Year ended 31 December 2020**

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) Credit risk (Continued)**

**Inputs, assumptions, and techniques used for estimating impairment (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.

**2021**

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

**2020**

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

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.

**2021**

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) Credit risk (Continued)**

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

**2020**

	<b>Loans and advances to customers at amortized cost</b>	<b>Investments at amortized cost</b>	<b>Cash at bank</b>	<b>Total</b>
Balance at 1 January	193,754,206	17,184,803	12,929,650	223,868,659
Loans disbursed	226,583,592	-	-	226,583,592
Loan repayments	(243,601,406)	-	-	(243,601,406)
Loan write offs	(2,051,588)	-	-	(2,051,588)
Net cash movement	-	21,257,834	1,399,006	22,656,840
Loan modification	991,323	-	-	991,323
Deferred loan fees	(1,035,170)	-	-	(1,035,170)
Deferred staff expense	(83,133)	-	-	(83,133)
<b>Balance at 31 December</b>	<b>174,557,824</b>	<b>38,442,637</b>	<b>14,328,656</b>	<b>227,329,117</b>

**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:

<b>Concentration by sector</b>	<b>2021 Ushs'000</b>	<b>2020 Ushs'000</b>
Agriculture	33,798,655	29,260,934
Mining and quarrying	720,547	623,659
Manufacturing	6,369,585	4,069,392
Trade and commerce	96,378,078	119,514,496
Transport and Utilities	820,150	563,415
Building and construction	4,313,312	4,357,427
Other services	14,232,726	16,168,501
<b>Total</b>	<b>156,633,053</b>	<b>174,557,824</b>

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

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

	<b>2021 Ushs'000</b>	<b>2020 Ushs'000</b>
Amortized cost of financial assets modified during the period	5,630,367	14,935,375
Net modification loss/gain	225,007	2,689,027

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**e) Credit risk (Continued)**

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

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

<b>31 December 2021</b>	<b>Gross carrying amount</b>	<b>Post modification Corresponding ECL</b>	<b>Gross carrying amount</b>	<b>Pre-modification Corresponding ECL</b>
	<b>Ushs'000</b>	<b>Ushs'000</b>	<b>Ushs'000</b>	<b>Ushs'000</b>
Facilities that have cured since modification and are now measured using the 12-month ECL	2,289,100	249	1,995,423	885,419
Facilities that have reverted to Stage 2/3 lifetime ECL having once cured	3,425,374	2,303,936	4,991,275	3,855,488
<b>31 December 2020</b>				
	<b>Gross carrying amount</b>	<b>Post modification Corresponding ECL</b>	<b>Gross carrying amount</b>	<b>Pre-modification Corresponding ECL</b>
	<b>Ushs'000</b>	<b>Ushs'000</b>	<b>Ushs'000</b>	<b>Ushs'000</b>
Facilities that have cured since modification and are now measured using the 12-month ECL	1,069,204	124	2,090,329	5,079
Facilities that have reverted to Stage 2/3 lifetime ECL having once cured	4,177,455	3,026,457	6,233,900	52,637

**f) Interest rate risk**

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

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**f) Interest rate risk (Continued)**

Year ended 31 December 2021		Up to 1 month	From 1 to 3 months	From 3 to 12 months	Above 12 months	Sub total	Fixed interest rates instruments	Non-interest bearing	Total
Financial Assets	Average interest	Ushs '000	Ushs '000	Ushs '000	Ushs '000			Ushs '000	Ushs '000
Cash and balances with the central bank		-	-	-	-	-	-	2,666,322	2,666,322
Deposits due from other financial Institutions	10.88%	17,444,101	2,571,836	16,394,333	-	36,410,270	-	-	36,410,270
Loans and advances to customers	47.22%						143,669,606	-	143,669,606
<b>Total financial assets</b>		<b>17,444,101</b>	<b>2,571,836</b>	<b>16,394,333</b>	<b>-</b>	<b>36,410,270</b>	<b>143,669,606</b>	<b>2,666,322</b>	<b>182,746,198</b>
<b>Financial liabilities</b>									
Customer deposits		10,572,391	20,222,412	23,978,854	-	54,773,657	-	10,902,484	65,676,141
Borrowings and managed funds	12.49%	4,354,878	14,981,213	17,080,255	23,151,478	59,567,824	-	-	59,567,824
Lease liability		-	2,700	108,878	12,111,975	12,223,553	-	-	12,223,553
<b>Total financial liabilities</b>		<b>14,927,269</b>	<b>35,206,325</b>	<b>41,167,987</b>	<b>35,263,453</b>	<b>126,565,034</b>	<b>-</b>	<b>10,902,484</b>	<b>137,467,518</b>
<b>Interest rate gap</b>		<b>2,516,832</b>	<b>(32,634,489)</b>	<b>(24,773,654)</b>	<b>(35,263,453)</b>	<b>(90,154,764)</b>	<b>143,669,606</b>	<b>(8,236,162)</b>	<b>45,278,680</b>
Year ended 31 December 2020		Up to 1 month	From 1 to 3 months	From 3 to 12 months	Above 12 months	Sub total	Fixed interest rates instruments	Non-interest bearing	Total
Financial Assets	Average interest	Ushs '000	Ushs '000	Ushs '000	Ushs '000			Ushs '000	Ushs '000
Cash and balances with the central bank		-	-	-	-	-	-	2,956,130	2,956,130
Deposits due from other financial Institutions	12.25%	19,437,780	16,732,037	16,244,900	-	52,414,717	-	-	52,414,717
Loans and advances to customers	27.95%						152,900,190	-	152,900,190
<b>Total financial assets</b>		<b>19,437,780</b>	<b>16,732,037</b>	<b>16,244,900</b>	<b>-</b>	<b>52,414,717</b>	<b>152,900,190</b>	<b>2,956,130</b>	<b>208,271,037</b>
<b>Financial liabilities</b>									
Customer deposits		18,081,342	2,428,766	20,574,627	1,668	41,086,403	-	10,145,233	51,231,636
Borrowings and managed funds	13.28%	-	4,967,856	71,221,378	35,400,787	111,590,021	-	-	111,590,021
Lease liability		327,152	504,731	2,145,027	9,931,839	12,908,749	-	-	12,908,749
<b>Total financial liabilities</b>		<b>18,408,494</b>	<b>7,901,353</b>	<b>93,941,032</b>	<b>45,334,294</b>	<b>165,585,173</b>	<b>-</b>	<b>10,145,233</b>	<b>175,730,406</b>
<b>Interest rate gap</b>		<b>1,029,286</b>	<b>8,830,684</b>	<b>(77,696,132)</b>	<b>(45,334,294)</b>	<b>(113,170,456)</b>	<b>152,900,190</b>	<b>(7,189,103)</b>	<b>32,540,631</b>

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**f) Interest rate risk (Continued)**

The previous tables show the undiscounted cash flows on the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments may vary from this analysis. A realistic 1% (2020: 1%) increase/decrease in interest rates in the current year would affect profit or loss by Ushs +/-901,548 (2020: Ushs +/-1,131,705) and equity by Ushs +/-631,084 (2020: Ushs +/-792,194)

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

**Interest rate benchmark reform**

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

**g) Liquidity risk**

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

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

**Exposure to Liquidity risk**

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**g) Liquidity risk (Continued)**

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**g) Liquidity risk (Continued)**

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2020 to the contractual maturity date.

<b>31 December 2020</b>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Above 12 months</b>	<b>Total</b>
<b>Assets</b>	<b>Ushs '000</b>	<b>Ushs '000</b>	<b>Ushs '000</b>	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Financial Assets</b>					
Cash and bank with the central bank	1,956,130	-	-	-	1,956,130
Deposits due from other financial institutions	19,794,356	16,732,037	16,244,900	-	52,771,293
Loans and advances to customers	48,113,744	13,535,442	111,101,966	8,679,188	181,430,340
Related party receivable	-	-	1,871,109	-	1,871,109
<b>Total financial assets</b>	<b>69,864,230</b>	<b>30,267,479</b>	<b>129,217,975</b>	<b>8,679,188</b>	<b>238,028,872</b>
<b>Financial liabilities</b>					
Loan security fund	16,962,410	2,256,176	13,248,186	692,940	33,159,712
Customer deposits	28,226,575	2,428,766	20,574,627	1,668	51,231,636
Related party payables	-	-	4,071	-	4,071
Borrowings and managed funds	-	6,432,179	32,155,053	92,283,749	130,870,981
Other liabilities	4,075,114	564,934	-	-	4,640,048
Lease liability	-	-	3,296,363	15,583,274	18,879,637
<b>Total financial liabilities</b>	<b>49,264,099</b>	<b>11,682,055</b>	<b>69,278,300</b>	<b>108,561,631</b>	<b>238,786,085</b>
<b>Liquidity gap</b>	<b>20,600,131</b>	<b>18,585,424</b>	<b>59,939,675</b>	<b>(99,882,443)</b>	<b>(757,213)</b>

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**h) Market risk**

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

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

**Management of market risks**

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

**i) Currency risk**

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

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)**

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**i) Currency risk (Continued)**

The table below summarizes the Bank's exposure to foreign currency risk as at 31 December 2021. The amounts denominated in Uganda Shillings (Ushs) are indicated in the table below for information.

	Ushs	USD	2021 Total	Ushs	USD	2020 Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
<b>ASSETS</b>						
Cash and Bank	9,394,696	5,614,149	15,008,845	16,741,566	446,401	17,187,967
	<b>9,394,696</b>	<b>5,614,149</b>	<b>15,008,845</b>	<b>16,741,566</b>	<b>446,401</b>	<b>17,187,967</b>
<b>Equity and Liabilities</b>						
Borrowings and managed funds	44,021,088	15,546,736	59,567,824	98,818,745	12,771,276	111,590,021
	<b>44,021,088</b>	<b>15,546,736</b>	<b>59,567,824</b>	<b>98,818,745</b>	<b>12,771,276</b>	<b>111,590,021</b>
<b>Net position</b>		<b>(9,932,587)</b>			<b>(12,324,875)</b>	

**31. FINANCIAL RISK MANAGEMENT (Continued)**

**i) Currency risk (Continued)**

**Sensitivity analysis**

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

	<b>2021</b> <b>Ushs '000</b>	<b>2020</b> <b>Ushs '000</b>
	<b>Effect on Profit</b>	<b>Effect on profit</b>
<b>Currency-USD</b>		
+5% US\$ Movement	(496,629)	(616,244)
-5% US\$ Movement	496,629	616,244

	<b>2021</b> <b>Ushs '000</b>	<b>2020</b> <b>Ushs '000</b>
	<b>Effect on equity</b>	<b>Effect on equity</b>
<b>Currency-USD</b>		
+5% US\$ Movement	(347,640)	(431,371)
-5% US\$ Movement	347,640	431,371

**j) Operational risks**

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

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

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

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

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

### **32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

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

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

#### **a) Valuation models**

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

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

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

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

### **33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)**

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

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

	<b>Borrowings and managed funds</b>	<b>Lease liabilities</b>	<b>Liabilities ordinary shares</b>	<b>Total</b>
Balance as at 31 December 2020	<b>111,590,022</b>	<b>12,908,749</b>	<b>43,000,000</b>	<b>167,498,771</b>
<b>Changes from financing cash flows</b>				
Issue of shares	-	-	11,421,880	11,421,880
Proceeds from loans and borrowings	18,680,552	-	-	18,680,552
Repayment of borrowings	(69,087,323)	-	-	(69,087,323)
New leases during the year	-	1,527,579	-	1,527,579
Payment of lease liabilities	-	(3,593,924)	-	(3,593,924)
<b>Total changes from financing cash flows</b>	<b>(50,406,771)</b>	<b>(2,066,345)</b>	<b>11,421,880</b>	<b>(41,051,236)</b>
Effect of changes in foreign exchange rates	(578,157)	-	-	(578,157)
Other changes				
Liability-related	-	(244,889)	-	(244,889)
New finance leases				
Capitalized borrowing costs	-	-	-	-
Interest expense	12,610,456	1,626,038	-	14,236,494
Interest paid	(13,647,726)	-	-	(13,647,726)
<b>Total liability-related other changes</b>	<b>(1,615,427)</b>	<b>1,381,149</b>	<b>-</b>	<b>(234,278)</b>
<b>Total equity-related other changes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 December 2021</b>	<b>59,567,824</b>	<b>12,223,553</b>	<b>54,421,880</b>	<b>126,213,257</b>

**35. REGULATORY CREDIT RISK RESERVE**

	<b>2021 Ushs '000</b>	<b>2020 Ushs '000</b>
As at January	-	639,292
Transfer (to)/ from retained earnings	-	(639,292)
<b>At 31 December</b>	<b>-</b>	<b>-</b>

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:

	<b>2021 Ushs '000</b>	<b>2020 Ushs '000</b>
<b>Provisions as per FIA</b>		
Specific provisions	10,546,579	19,264,768
General provisions	1,409,010	1,446,966
	<b>11,955,589</b>	<b>20,711,734</b>
Impairment assessment as per IFRS 9		
Stage 1	15,428	60,104
Stage 2	8,836	218,849
Stage 3	12,939,183	21,378,681
<b>Total</b>	<b>12,963,447</b>	<b>21,657,634</b>
<b>Regulatory credit risk reserve (excess)</b>	<b>-</b>	<b>-</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)**

**35. REGULATORY CREDIT RISK RESERVE (Continued)**

IFRS provisions were higher than prudential provisions in 2020 and 2021, and as such no 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]**

<b>Credit classification</b>	<b>Nature of provisions</b>	<b>Quantitative criteria</b>	<b>Percentage provisioning</b>
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)**

<b>Credit classification</b>	<b>Nature of provisions</b>	<b>Quantitative criteria</b>	<b>Percentage provisioning</b>
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. SUBSEQUENT EVENTS**

**Russian/Ukraine conflict**

On 24 February 2022, Russia invaded Ukraine thereby launching a full-scale military offensive. NATO members and most large responded to the invasion by instituting economic sanctions on Russia which include, among others, reduction of imports from Russia and freezing assets of Russian citizens operating in most economies construed to be allied to the Russian Government.

The Bank does not have direct dealings with the Russian Government, or any companies based in Russia. However, it expected that some of the restrictions might have a spill over into other economies and hence indirectly affect the Bank and its members. It is also expected the economic sanctions will likely affect commodity prices especially oil and gas products and the stability of foreign exchange rates.

The directors have also assessed that there are no material adjusting events or conditions which existed at the reporting date affecting the financial statements.

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)**

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**37. CURRENCY**

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

**38. CAPITAL COMMITMENTS**

The Bank had no capital commitments as at 31 December 2021 (31 December 2020: NIL)

**39. CONTINGENT ASSETS**

There are several cases in which BRAC Uganda Bank Ltd seeks compensation from borrowers. The total estimated exposure arising from these cases is Ushs 31 million. In the opinion of the Directors, the Bank has high chances of success against the plaintiffs and none of the cases individually or in aggregate would have a significant impact on the Bank's operation. Based on legal advice, the Directors are confident that the Bank shall receive favourable ruling from the outstanding cases.

**40. CONTINGENT LIABILITIES**

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

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

**a) WHT on dividend**

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

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

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

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)**

**41. ASSETS AND LIABILITIES MATURITY ANALYSIS**

<b>31 December 2021</b>	<b>Within 12 months</b>	<b>After 12 months</b>	<b>Total</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Assets</b>			
Cash and Bank with the central bank	1,666,322	1,000,000	2,666,322
Deposits due from other financial Institutions	36,410,270	-	36,410,270
Loans and advances to customers	136,432,243	7,237,363	143,669,606
Related party receivable	2,222,811	-	2,222,811
Tax recoverable	81,350	-	81,350
Work in progress	2,563,122	-	2,563,122
Property and equipment	-	12,373,353	12,373,353
Intangible assets	-	5,850,631	5,850,631
Right of use	-	11,022,430	11,022,430
Deferred tax asset	9,458,625	-	9,458,625
Other assets	2,936,671	-	2,936,671
<b>Total assets</b>	<b>191,771,414</b>	<b>37,483,777</b>	<b>229,255,191</b>
<b>Liabilities</b>			
Loan security fund	30,820,930	125,902	30,946,832
Customer deposits	65,676,141	-	65,676,141
Related party payables	39,344	-	39,344
Borrowings and managed funds	36,416,346	23,151,478	59,567,824
Other liabilities	5,717,663	-	5,717,663
Lease liability	111,578	12,111,975	12,223,553
Donor funds	2,536,179	1,685,869	4,222,048
<b>Total liabilities</b>	<b>141,318,181</b>	<b>37,075,224</b>	<b>178,393,405</b>
<b>Net assets</b>	<b>50,453,233</b>	<b>408,553</b>	<b>50,861,786</b>

**BRAC UGANDA BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)**

**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 2020 to the contractual maturity date

<b>31 December 2020</b>	<b>Within 12 months</b>	<b>After 12 months</b>	<b>Total</b>
	<b>Ushs '000</b>	<b>Ushs '000</b>	<b>Ushs '000</b>
<b>Assets</b>			
Cash and Bank with the central bank	2,956,130	-	2,956,130
Deposits due from other financial Institutions	52,414,717	-	52,414,717
Loans and advances to customers	152,900,190	-	152,900,190
Related party receivable	1,871,109	-	1,871,109
Work in progress	-	3,489,711	3,489,711
Property and equipment	-	15,187,482	15,187,482
Intangible assets	-	5,114,567	5,114,567
Right of use	-	11,970,207	11,970,207
Deferred tax asset	9,831,731	-	9,831,731
Other assets	2,932,494	299,146	3,231,640
<b>Total assets</b>	<b>222,906,371</b>	<b>36,061,113</b>	<b>258,967,484</b>
<b>Financial liabilities</b>			
Loan security fund	32,466,772	692,940	33,159,712
Customer deposits	51,229,968	1,668	51,231,636
Related party payables	4,071	-	4,071
Borrowings and managed funds	38,587,232	73,002,789	111,590,021
Other liabilities	5,652,916	-	5,652,916
Tax payable	509,719	-	509,719
Lease liability	-	9,612,386	12,908,749
Donor funds	3,296,363	5,154,679	5,154,679
Deferred tax liability	-	-	-
<b>Total liabilities</b>	<b>131,747,041</b>	<b>88,464,462</b>	<b>220,211,503</b>
<b>Net assets</b>	<b>91,159,330</b>	<b>(52,403,349)</b>	<b>38,755,981</b>