WATU CREDIT UGANDA LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	:	Sanjiv Prem Jethanand Gidoomal - Chairperson
	:	Agris Varpins
	:	Andris Kaneps
	:	Vijay Vashdev Gidoomal
	:	Gaurav Saxena
REGISTERED OFFICE	:	Plot 2 Bukoto Street
	:	Kamwokya, NV House
	:	C/O P.O.Box 113465
	:	Kampala,Uganda
INDEPENDENT AUDITOR	:	Deloitte & Touche
	:	Certified Public Accountant of Uganda
	:	1 Lumumba Avenue, Nakasero
	:	P.O. Box 10314
	:	Kampala, Uganda
COMPANY SECRETARY	:	Oars & Bt Advocates
	:	Plot 13-15 Kiira road, Kamwokya
	:	P.O.Box 24071
	:	Kampala, Uganda
PRINCIPAL BANKERS	:	Stanbic Bank Uganda Limited
	:	P .O. Box 7131
	:	Kampala, Uganda
	:	I&M Bank Limited
	:	Plot 6/6A , Kampala Road
	:	P .O. Box 3072
	:	Kampala, Uganda
	:	Exim Bank (Uganda) Limited
	:	P .O. Box 36206
	:	Hanington Road
	:	Kampala, Uganda
	:	Absa Bank Uganda Limited
	:	P.O. Box 7101
	:	Hanington Road
	:	Kampala, Uganda
	:	Ecobank Uganda Limited
	:	P.O. Box 7638
	:	Kafu Road
	:	Kampala, Uganda
	:	I&M Bank Limited
	:	P .O. Box 30238-00100
	:	Nairobi,GPO
	:	Kenya

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2023, which disclose the state of affairs of Watu Credit Uganda Ltd (the Company).

INCORPORATION

The Company was incorporated on 23 May 2019 and commenced trading on 11 July 2019.

PRINCIPAL ACTIVITY

The principal activity of the Company is the provision of micro-credit lending services.

RESULTS	2023 Shs'000	2022 Shs'000
Profit before tax	42,817,103	43,102,535
Tax charge	(13,411,010)	(12,979,744)
Profit for the year	29,406,093	30,122,791

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on the company's services. The company's strategic focus is to enhance growth of income whilst maintaining profit margins, the success of which remains dependent on overall market conditions and other factors such as the impact of the geopolitical environment as well as the fuel price crisis. The directors continue to monitor principal risks closely with a view to assessing and mitigating its impact on the Company.

SHARE CAPITAL

The authorised, issued and paid up share capital of the Company is Shs 1,500,000,000 (2022: Shs 1,500,000,000) representing 150,0000,000 (2022: 150,0000,000) ordinary shares of Shs 10 each.

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2022: Nil).

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

In accordance with the Company's Articles of Association, no director is due for retirement by rotation.

INDEPENDENT AUDITOR

The auditors, Deloitte & Touche Certified Public Accountant of Uganda, who were appointed during the year, have expressed their willingness to continue in office in accordance with section 167 (2) of the Uganda Companies Act 2012.

BY ORDER OF THE BOARD

DIRECTOR
KAMPALA
2nd July 2024

DIRECTOR
KAMPALA
2nd July 2024

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Uganda Companies Act, 2012 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company maintains proper accounting records that are sufficient to show and explain the transactions of the Company; and that disclose with reasonable accuracy, the financial position of the Company and that enable them to prepare financial statements of the Company that comply with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Uganda Companies Act, 2012. The directors are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and in the manner required by the Uganda Companies Act, 2012. They also accept responsibility for:

i) Designing, implementing and maintaining such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
ii) Selecting and applying appropriate accounting policies; and
(iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company as at 31 December 2023 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Uganda Companies Act, 2012.

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 2nd July 2024 and signed on its behalf by:

DIRECTOR

DIRECTOR

Certified Public Accountant of Uganda
ICPAU Registration No: AF0001
3rd Floor, Rwenzori House
1 Lumumba Avenue
P O Box 10314
Kampala, Uganda
Tel: +256 (417) 701 000
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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF WATU CREDIT UGANDA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Watu Credit Uganda Limited, set out on pages 7 to 33, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2023 and of its financial performance and cash flows for the year then ended and prepared, in accordance with International Financial Reporting Standards for Small and Medium Sized Entities ("IFRS for SMEs") and the requirements of the Uganda Companies Act, 2012.

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 Institute of Certified Public Accountants of Uganda Code of Ethics (ICPAU Code of Ethics), which is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants, together with other 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Directors are responsible for the other information, which comprises "The Report of Directors". The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this 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 of the financial statements that give a true and fair view in accordance with IFRS for SMEs, and for such internal controls as Directors determine are 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so. The Directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of 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 Company'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 Company 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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF WATU CREDIT UGANDA LIMITED (CONTINUED)

Report on other Legal and Regulatory requirements

As required by the Uganda Companies Act, 2012 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 our audit.

ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books of account; and

iii) the company's statement of financial position (balance sheet) and statement of profit or loss and other comprehensive income (profit and loss statement), is in agreement with the statement of profit or loss and other comprehensive income.

The Engagement Partner responsible for the audit resulting in this independent auditor's report is Paul Ssali, Practicing Number P0508.

Deloitte & Touche
Certified Public Accountant of Uganda

2 July 2024

Kampala

Paul Ssali
Partner

STATEMENT OF PROFIT OR LOSS

	Notes	2023 Shs '000	2022 Shs '000
Interest income	4	135,303,421	86,590,757
Interest expense	7	(33,821,068)	(18,919,222)
Net interest income		101,482,353	67,671,535
Other operating income	5	26,739,654	18,264,565
Total Income		128,222,007	85,936,100
Impairment of loans and advances	8	(10,127,681)	(3,126,779)
Net operating income		118,094,326	82,809,321
Administrative expenses	9	(19,769,656)	(7,300,837)
Staff Costs	10	(17,105,267)	(11,375,277)
Other operating expenses	11	(28,325,560)	(18,825,785)
Operating profit	6	52,893,843	45,307,422
Finance costs	12	(10,076,740)	(2,204,887)
Profit before tax		42,817,103	43,102,535
Tax charge	13	(13,411,010)	(12,979,744)
Profit for the year		29,406,093	30,122,791

The notes on pages 11 to 33 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2023 Shs`000	31 December 2022 Shs`000
EQUITY			
Share capital	14	1,500,000	1,500,000
Retained earnings		34,966,480	18,966,030
Regulatory reserve	15	33,395,395	19,989,752
Equity attributable to shareholders		69,861,875	40,455,782
Non-current liabilities			
Deferred Income	23	1,702,983	1,737,286
Borrowings	16	172,571,410	162,928,991
		174,274,393	164,666,277
		244,136,268	205,122,059
REPRESENTED BY			
Non-current assets			
Deferred tax asset	18	3,534,282	866,325
Intangible assets	25	2,700,637	-
Tangible assets	17	2,346,858	1,725,001
		8,581,777	2,591,326
Current assets			
Loans and advances to customers and other assets	19	268,929,916	200,976,384
Cash and cash equivalents	21	2,371,753	20,255,651
Corporation tax recoverable	13	-	489,856
		271,301,669	221,721,891
Current liabilities			
Trade and other payables	22	7,673,309	5,571,920
Deferred Income	23	7,793,277	7,223,261
Borrowings	16	6,831,481	6,395,977
Corporation tax payable	13	13,449,111	-
		35,747,178	19,191,158
Net current assets		235,554,491	202,530,733
		244,136,268	205,122,059

The financial statements on pages 7 to 33 were approved and authorised for issue by the Board of Directors on 2nd July 2024 and were signed on its behalf by:

DIRECTOR

DIRECTOR

The notes on pages 11 to 33 form an integral part of these financial statements.
Report of the independent auditor - pages 4 to 6.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022	Note	Share capital Shs '000	Retained earnings Shs '000	Regulatory reserve Shs '000	Total Shs '000
At start of year		1,000	5,979,672	4,352,319	10,332,991
Profit for the year		-	30,122,791	-	30,122,791
Transfer to regulatory reserve	15	-	(15,637,433)	15,637,433	-
Capitalisation of prior year retained earnings into share capital		1,499,000	(1,499,000)	-	-
At end of year		1,500,000	18,966,030	19,989,752	40,455,782
For the year ended 31 December 2023					
At start of year		1,500,000	18,966,030	19,989,752	40,455,782
Profit for the year		-	29,406,093	-	29,406,093
Transfer to regulatory reserve	15	-	(13,405,643)	13,405,643	-
At end of year		1,500,000	34,966,480	33,395,395	69,861,875

The notes on pages 11 to 33 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

STATEMENT OF CASH FLOWS

Cash flows used in operating activities	Notes	2023 Shs '000	2022 Shs '000
Profit before tax		42,817,103	43,102,535
Adjustments for:			
Interest Income		(135,303,421)	(86,590,757)
Interest Expense		33,821,068	18,919,222
Depreciation on tangible assets	17	861,852	714,574
Amortisation on intangible assets	25	273,340	-
Property and equipment adjustment		-	38,010
Unrealised foreign exchange (gain)/loss on borrowings	16	4,433,504	1,555,373
Changes in working capital			
• trade and other receivables	19	(64,110,620)	(99,361,332)
• trade and other payables	22	2,101,388	2,231,223
• deferred income	23	535,713	3,512,932
Tax paid		(2,140,000)	(14,210,044)
Interest Received		131,460,508	81,664,054
Net cash used in operations		14,750,435	(48,424,210)
Investing activities			
Cash paid for tangible assets	17	(1,483,708)	-
Cash paid for intangible assets	25	(2,973,977)	(1,461,395)
Net cash from investing activities		(4,457,685)	(1,461,395)
Financing activities			
Interest Paid		(33,821,068)	(18,919,222)
Proceeds from borrowings	16	151,357,998	165,315,315
Repayment of borrowings	16	(145,713,579)	(83,204,133)
Net cash from financing activities		(28,176,649)	63,191,960
(Decrease)/Increase in cash and cash equivalents		(17,883,898)	13,306,355
Movement in cash and cash equivalents			
At start of year		20,255,651	6,949,296
Increase in cash and cash equivalents		(17,883,898)	13,306,355
At end of year	21	2,371,753	20,255,651

The notes on pages 11 to 33 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

1. General information

Watu Credit Uganda Ltd is incorporated and domiciled in Uganda under the Uganda Companies Act, 2012 as a Company limited by Shares. The address of its registered office is Plot 2 Bukoto Street Kamwokya, NV House, C/O P.O.BOX 113465, Kampala, Uganda. The principal activity of the Company is the provision of micro-credit lending services.

2. Summary of material accounting policy information

a) Basis of preparation

The financial statements of Watu Credit Uganda Ltd have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board and are consistent with the previous year.

The financial statements are prepared on the historical cost basis.

The preparation of financial statements in conformity with the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements, are disclosed in note 2 (b).

These financial statements comply with the requirements of the Uganda Companies Act, 2012. The statement of profit or loss represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

Going concern

The financial performance of the Company is set out in the report of directors and in the statement of profit or loss. The financial position of the Company is set out in the statement of financial position.

b) Key sources of estimation uncertainty and judgements

The Directors have made no assumptions and there are, in their opinion, no sources of estimation uncertainty that have a significant risk of causing a material adjustment to the financial statements in the 12 months from the date of the statement of financial position.

c) **Revenue recognition**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue will be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest income

Interest income from loans and advances to customers is recognised in the profit and loss account using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income relates to interest on loans and advances and is recognised in the period in which it is earned.

Commission income

The Company earns fees and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period.

Commission income relates to loan processing fees, which is charged to cover the associated costs related to loan issuance. The major associated costs are comprehensive insurance and a GPS tracking device.

d) **Interest Expense**

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

The calculation of the effective interest rate includes all fees 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 liability.

Interest expense presented in the statement of comprehensive income relates to interest expense on loans from commercial banks and other lenders.

e) **Property and equipment**

All property and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation except as stated below .

Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

e) **Property and equipment (continued)**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on all other assets is calculated on a reducing balance method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate (%)
IT equipment	30.0%
Motor vehicles	25.0%
Office equipment	12.5%
Furniture & fittings	12.5%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date and is adjusted respectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

f) **Trade Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. The Directors of the Company consider that the carrying amount of trade payables approximates to their fair value.

g) **Borrowing costs**

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalized is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

h) **Related parties**

The Company discloses the nature, volume and amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the Directors, executive officers and related companies. The related party transactions are at arm's length.

i) **Provisions for liabilities and charges**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate of the amount of the obligation can be made

j) **Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss for the year.

Current tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Fiscal Laws of Uganda.

Deferred tax

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

k) **Intangible Assets**

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the Company are recognised as intangible assets. Amortisation is calculated using the straight-line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using an annual rate of 30%.

l) **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and deposits held at call with mobile money payment aggregators and banks, net of bank overdrafts

m) **Financial instruments - Initial recognition and subsequent measurement**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

Date of recognition

Loans and advances to customers are recognized under the following circumstances:

- Loans and advances arising out of asset finance arrangements are recognized when all contractual agreements have been fully executed and the customer has obtained custody of the financed asset;
- Other loans and advances to customers resulting from short term loans and business loans are recognized when the funds are transferred to customer account.

Initial measurement and classification

Financial instruments such as loans and advances to customers are measured initially at fair value plus transaction costs.

Loans and advances due from customers include non-derivative financial assets with fixed or predetermined payments that are not quoted in an active market.

After initial measurement, loans and advances due from customers are subsequently measured at amortised cost less allowances for impairment.

Impairment of financial assets

The Company recognises loss allowance at an amount equal to either 12-month Expected credit loss (ECL) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

The Company recognises loss allowances at an amount equal to lifetime ECLs, except in the cases where credit risk has not increased significantly since initial recognition. Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs applying the simplified approach.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Company considers whether there has been a significant increase in the risk of default occurring since initial recognition rather than at evidence of an advance being credit impaired at the reporting date of an actual default occurring.

m) **Financial instruments - Initial recognition and subsequent measurement (continued)**

Significant increase in credit risk

In assessing whether the credit risk on an advance has increased significantly since initial recognition, the Company compares the risk of a default occurring on the advance as at the reporting date with the risk of a default occurring at the date of initial recognition.

The Company considers both quantitative and qualitative information that is reasonable and supportable including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information if considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on an advance is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due or 14 days since the last payment, unless the company has reasonable and supportable information that demonstrates otherwise.

By contrast, if an advance is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the advance has not increased significantly since initial recognition.

The Company regularly monitors the effectiveness of the criteria used to identify whether there is a significant increase in credit risk before the amount becomes past due.

Definition of default

For the purposes of internal credit risk management purposes, the company considers that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its loan in full (without taking collateral into account).

Irrespective of the above analysis, the company considers that the default has occurred when an advance instalment is more than 180 days past due or 28 days since the last payment, unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write off policy

The Company writes off an advance when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Loans written off may still be subject to enforcement activities under the company recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit and loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e the magnitude of loss if there is a default) and the exposure at default.

The assessment of the probability of default and the loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the advance at the reporting date.

m) **Financial instruments - Initial recognition and subsequent measurement (continued)**

Measurement and recognition of expected credit losses (Continued)

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Advances are then grouped in such a manner that they share similar credit risk characteristics such as nature of the advance etc.

The grouping is regularly reviewed by management to ensure the constituents in each group continue to share similar credit risk characteristics.

An impairment gain or loss is recognised for all loans in profit and loss with a corresponding adjustment to their carrying amount through the loan loss provisions account. The impairment loss is included in profit or loss as a movement in loss allowance (Note 14).

n) **Other assets**

Receivables are carried at original invoiced amount less specific provision for all known doubtful debtors based on a review of all outstanding amounts at the year end. Bad debts are written off in the year in which they are identified when all the reasonable steps to recover them have been taken without success.

A provision for impairment is recognised in the profit and loss account in the year when the recoverability of the amount as per the original terms is considered doubtful. The provision is based on the difference between the carrying amount and the present value of the expected cash flows, discounted at the effective interest rate.

Receivables not collectable are written off against related provisions. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

o) **Other liabilities**

Payables are recorded at their undiscounted amount of cash and cash equivalents expected to be paid or the fair value of the consideration received in exchange of the obligation. Trade and other payables are stated at their nominal value.

p) **Retirement benefits obligations**

The Company and the employees contribute to the National Social Security Fund, a national defined contribution scheme. Contributions are determined by the local statute and the Company's contributions are charged to the profit and loss account in the period to which they relate. The Company has no further payment obligations once the contributions have been paid.

q) **Share Capital**

Ordinary shares are recognised at par value and classified as share capital in equity. Any amounts received in excess of the par value of the shares issued are classified as share premium in equity.

r) **Translation of foreign currencies**

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the company operates), which is Uganda Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise, except for differences arising on translation of non-monetary available-for-sale financial assets, which are recognised in other comprehensive income.

s) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Financial risk management

The Company's activities expose it to a variety of financial risks including credit, liquidity and market risk. The Company risk limits are regularly assessed to ensure alignment with the Company objectives and prevalent market conditions.

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. Directors are closely involved in ensuring a variety of techniques are used to assess and manage the said risks.

The Company risk management policies are established to identify, analyse and monitor risks faced by the Company and aid the board in setting appropriate risk limits and controls to ensure adherence to such limits.

Risk management policies and systems are reviewed regularly by the Board, to reflect changes in the operating market conditions, products and services offered. The Board seeks to develop a disciplined and effective control environment in which all employees understand their roles and obligations to risk management.

a) Credit risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Company mitigates and controls credit risk by setting limits on the amount of risk it is willing to accept for individuals or counterparties and by consistently monitoring exposures in relation to such limits. Credit risk mainly arises from financial assets and is managed on a company-wide basis. The Company does not grade the credit quality of financial assets that are neither past due nor impaired.

Governance and oversight

The Board of Directors has the overall responsibility for the day to day management of credit risk to the Company which include:

- Formulating the Company's credit management framework and policies including credit risk assessment procedures, collateral requirements, and policies on the general documentation of various credit risk exposures;
- Periodic review of the company's credit risk management framework;
- Establishing the authorization structure for the approval and renewal of credit facilities;
- Developing and maintaining the Company's credit risk grading in order to categorize exposures according to various degrees of risk of financial loss faced and to focus management on the identified risk grades. The risk grading system is used in determining where impairment provisions may be required against specific credit risk exposures.

Credit risk management and monitoring

Credit risk management framework enables the Company to manage credit risk within the limits of its acceptable risk appetite, develop risk response strategies, and optimize risk taking by anticipating and acting on potential opportunities or threats.

Credit risk exposures are managed through the Company's robust credit assessment, structuring and monitoring process. Exposures showing signs of deterioration are placed on an early alert list for closer monitoring where appropriate.

Credit risk measurement consist of appraising the track record of various customers as appropriate for the prediction of the likely future behaviours of the existing accounts for on-going credit management. The Company's credit risk grades reflect the range of parameters developed to predict the default probabilities of each rating class in line with international best practices.

3. Financial risk management (continued)

The Company's credit risk rating is as follows:

Days in arrears	Days since last payment	Level type	Stage
0-30	0-14	Normal risk	Stage 1
30-180	15-28	Average risk	Stage 2
Over 180	Over 28	Loss	Stage 3

Impairment and allowance policies

In order to calculate credit loss allowances, management determine whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. The determination depends on whether there has been a significant increase in the credit risk since initial recognition.

The detailed accounting policy is included in Note 2 (l).

The table below shows the Company's maximum exposure to credit risk by class of financial asset.

	Performing Shs '000	Past due but not impaired Shs '000	Past due and impaired Shs '000	Total Shs '000
31 December 2023				
Asset finance	66,227,418	186,613,301	22,792,375	275,633,094
Other receivables	1,727,162	-	-	1,727,162
Cash and cash equivalents	2,371,753	-	-	2,371,753
Tax recoverable	-	-	-	-
	70,326,333	186,613,301	22,792,375	279,732,009
31 December 2022				
Asset finance	62,434,399	129,762,992	11,834,320	204,031,711
Other receivables	1,378,208	-	-	1,378,208
Cash and cash equivalents	20,255,651	-	-	20,255,651
Tax recoverable	-	-	-	-
	84,068,258	129,762,992	11,834,320	225,665,570

Financial assets other than Asset finance, are neither impaired nor past due.

Loans and advances in Stage 1 and 2 are not individually impaired. Allowance for impairment losses on these loans and advances are assessed collectively.

Loans and advances in Stage 3 include items that are impaired. These are loans and advances for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to contractual terms of the loan agreement.

3. Financial risk management (continued)

b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The liquidity risk arises out of the possibility that the Company might be unable to meet its payment obligations when they fall due as a result of mismatch in cash flows under both normal and stressful circumstances. The board has developed a risk management framework for the management of the Company's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Company manages liquidity risk by continuously reviewing forecasts and actual cash flows and maintaining banking facilities to cover any shortfalls.

The table below summarises the maturity analysis for financial liabilities to their remaining contractual maturities.

	1-3 months Shs '000	Between 3-12 months Shs '000	Over 1 year Shs '000	Total Shs '000
31 December 2023				
Bank loans	1,031,275	6,251,593	32,418,971	39,701,839
Other borrowings	3,880,284	9,600,733	123,107,722	136,588,739
Promissory notes	3,112,313	-	-	3,112,313
Payables	7,673,309	-	-	7,673,309
Deferred Income	2,583,252	5,210,025	1,702,983	9,496,260
	18,280,433	21,062,351	157,229,676	196,572,460
31 December 2022				
Bank loans	383,813	6,712,807	7,355,159	14,451,779
Other borrowings	1,976,344	6,970,907	143,043,886	151,991,137
Promissory notes	2,882,052	-	-	2,882,052
Payables	5,571,920	-	-	5,571,920
Deferred Income	2,198,920	5,024,341	1,737,286	8,960,547
	13,013,049	18,708,055	152,136,331	183,857,435

The Company expects that despite the 10-day notice for the recall of shareholder promissory notes, it is unlikely that the facilities will be recalled before the expiry of the terms.

c) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

d) Interest rate risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

3. **Financial risk management (continued)**

e) **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk on borrowings that are denominated in USD or EUR other than its functional currency, primarily the Uganda Shilling (Shs).

As 31 December 2023 the Company had liabilities of Shs 1 million and cash balances of Shs 6 million equivalent in Kenyan shillings. However, these have not been regarded as a financial risk due to their immateriality.

While the board continuously monitors fluctuations in functional currency against the foreign currency, there is a policy and process in place such as hedging strategy to ensure positions are maintained within established limits and maximum exposure limited.

The table below summarises the foreign currency exposure as at 31 December 2023

	31 December 2023 Shs '000	31 December 2022 Shs '000
Assets in foreign currencies	321,263	18,562,964
Liabilities in foreign currencies	(141,245,186)	(155,343,412)
Net foreign currency exposure	(140,923,923)	(136,780,448)

	USD Shs '000	EUR Shs '000	Total Shs '000
31 December 2023			
Assets	250,073	71,190	321,263
Cash and bank balances	55,350	71,190	126,540
Receivables and other assets	194,723	-	194,723
Liabilities	140,129,618	1,115,568	141,245,186
Borrowings	138,719,747	805,944	139,525,691
Trade and other payables	1,409,871	309,624	1,719,495
31 December 2022			
Assets	18,510,604	52,360	18,562,964
Cash and bank balances	18,380,803	52,360	18,433,163
Receivables and other assets	129,801	-	129,801
Liabilities	142,095,689	13,247,723	155,343,412
Borrowings	141,221,711	12,724,999	153,946,710
Trade and other payables	873,978	522,724	1,396,702

3. Financial risk management (continued)

e) Currency risk (continued)

The below table demonstrates the sensitivity to a reasonable possible fluctuation in the below mentioned currencies' exchange rates, with all other variables held constant, on the Company's profit before tax (due to changes in the fair value of the monetary assets and liabilities):

	Currency Carrying Amount Shs '000	10% Depreciation Shs '000	10% Appreciation Shs '000
31 December 2023			
Assets			
USD	250,073	(25,007)	25,007
EUR	71,190	(7,119)	7,119
	321,263	(32,126)	32,126
Liabilities			
USD	140,129,618	(14,012,962)	14,012,962
EUR	1,115,568	(111,557)	111,557
	141,245,186	(14,124,519)	14,124,519
Net increase/(decrease)		(14,156,645)	14,156,645
31 December 2022			
Assets			
USD	18,510,604	(1,851,060)	1,851,060
EUR	52,360	(5,236)	5,236
	18,562,964	(1,856,296)	1,856,296
Liabilities			
USD	142,095,689	(14,209,569)	14,209,569
EUR	13,247,723	(1,324,772)	1,324,772
	155,343,412	(15,534,341)	15,534,341
Net increase/(decrease)		(17,390,637)	17,390,637

As at 31 December 2023, if the Shilling had weakened/strengthened by 10% against the major trading currencies, with all other variables held constant, the Company's net profit would have been Shs 14,156,644,907 (2022: Shs 17,390,637,663) lower/higher.

	2023 Shs`000	2022 Shs`000
4. Interest income		
Interest income on loans and advances to customers	134,726,136	86,590,757
Interest income on loans to related companies	577,285	-
	135,303,421	86,590,757
5. Other operating income		
Commission income	26,703,105	18,264,565
Interest income (other)	29,996	-
Loan write-offs recovery	6,553	-
	26,739,654	18,264,565
6. Operating Profit		
Depreciation on property and equipment	1,135,192	714,574
Director's remuneration	1,033,774	894,834
Auditor's remuneration	104,881	35,283
Rent and rates	2,704,003	1,604,597
Repairs and maintenance	736,515	562,454
Staff costs (Note 10)	17,105,267	11,375,277

7. Interest expense

Interest expense arises from loans obtained for the purpose of asset financing. This includes expenses related to both long-term and short-term borrowings as presented in note 16.

	2023 Shs`000	2022 Shs`000
	33,821,068	18,919,222
8. Impairment of loans and advances		
Allowance for impairment of loans and advances (note 20)	3,996,805	2,176,800
Loans and advances written off during the year (note 19)	6,130,876	949,979
	10,127,681	3,126,779
9. Administrative expenses		
Director's remuneration	1,033,774	894,834
Postage and telephone	4,508,385	2,775,808
Printing and stationery	250,245	103,254
Professional fees	7,767,337	958,417
Bank service charges	148,155	55,056
Audit fees	104,881	35,283
Marketing expense	488,934	533,369
Office expense	873,220	824,930
Subscriptions and periodicals	13,097	7,642
Travelling and entertainment	2,468,753	844,425
Miscellaneous expense	11,554	132,109
Vehicle running	204,066	120,860
Sponsorships and donations	17,411	-
Withholding tax	843,056	-
Other administrative expenses	1,036,788	14,850
	19,769,656	7,300,837

NOTES TO THE FINANCIAL STATEMENTS

10. Staff costs

	2023 Shs`000	2022 Shs`000
Gross bonuses	1,855,981	1,423,757
Gross salaries and wages	12,767,201	8,098,590
Health Insurance	656,736	398,879
NSSF, company contribution	1,472,612	1,040,695
Provisions for staff leave	264,104	336,852
Work permit fees	37,728	53,958
Other staff related expenses	44,298	11,683
Staff training	6,607	10,863
	17,105,267	11,375,277

11. Other operating expenses

	2023 Shs`000	2022 Shs`000
GPS tracking expense	6,341,518	3,653,657
Insurances	9,612,675	7,681,022
Payment charge on loans	507,908	179,838
Debt funding fees	3,911,225	2,757,011
Licences	1,081,224	161,716
Depreciation and amortisation	1,135,192	714,574
Depreciation on right of use assets	-	-
Low value assets expense	690,117	683,572
Recovery expense	1,113,999	600,806
Rent and rates	2,704,003	1,604,597
Repairs and maintenance	736,515	562,454
Security	200,957	113,435
Utilities	290,227	113,103
	28,325,560	18,825,785

12. Finance costs

	2023 Shs`000	2022 Shs`000
Realised foreign exchange loss / (gain)	344,949	2,335,099
Unrealised foreign exchange loss / (gain)	5,575,715	(1,815,054)
Derivative financial instruments premiums	4,156,076	1,684,842
	10,076,740	2,204,887

13. Tax

a) **Tax charge**

	2023 Shs`000	2022 Shs`000
Current tax	16,078,967	13,720,187
Deferred tax (Note 18)	(2,667,957)	(740,443)
	13,411,010	12,979,744

b) **The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:**

	2023 Shs`000	2022 Shs`000
Profit before tax	42,817,103	43,102,535
Tax calculated at a tax rate of 30% (2022: 30%)	12,845,131	12,930,761
Tax effect of:		
• expenses not deductible for tax purposes	574,854	16,884
• over provision from prior years	(8,975)	32,099
Tax charge	13,411,010	12,979,744

NOTES TO THE FINANCIAL STATEMENTS

13. Tax (continued)

	31 December 2023 Shs`000	31 December 2022 Shs`000
c) Tax payable/(recoverable)		
At start of the year	(489,856)	-
Tax paid during the year	(2,140,000)	(14,210,044)
Tax charge for the year	16,078,967	13,720,188
At end of the year	13,449,111	(489,856)

14. Share capital

Authorised		
150,000,000 (2022: 150,000,000) ordinary shares of Shs 10 (2022: Shs 10) each	1,500,000	1,500,000
Issued and fully paid		
150,000,000 (2022: 150,000,000) ordinary shares of Shs 10 (2022: Shs 10) each	1,500,000	1,500,000

15. Regulatory reserve

The regulatory general credit risk reserve represents amounts by which allowances for impairment of loans and advances determined in accordance with the Ugandan Microfinance Non-Deposit taking Institutions Act, 2018 exceed those determined in accordance with International Financial Reporting Standards. These amounts are appropriated to or from retained earnings in accordance with accounting policy. The reserve is not distributable.

	2023 Shs`000	2022 Shs`000
At start of year	19,989,752	4,352,319
Transfer to retained earnings	13,405,643	15,637,433
At end of year	33,395,395	19,989,752
Regulatory credit risk reserve is analysed as follows;		
Provisions as per MFI Act 2018		
Performing	559,227	559,726
Watch	5,581,637	4,134,202
Substandard	17,426,289	11,331,671
Doubtful	9,801,377	4,902,457
Loss	8,457,205	3,495,231
	41,825,735	24,423,287
Impairment assessment		
Impairment on loans and advances per IFRS 9	8,430,340	4,433,535
Regulatory credit risk reserve at end of year	33,395,395	19,989,752

16. Borrowings

	31 December 2023 Shs`000	31 December 2022 Shs`000
The borrowings are made up as follows:		
Non-current		
Borrowings from related parties (Note 24)	21,591,708	56,697,023
Borrowings from Untapped Water Limited Uganda	65,796	926,478
Borrowings from Adolf H. Lundin Charitable Foundation	15,134,773	18,313,829
Borrowings from FMO	19,045,819	18,391,787
Borrowings from Norsad Capital Limited	24,833,189	18,306,650
Borrowings from Verdant Capital Hybrid Fund	28,340,741	26,630,371
Borrowings from Mintos Market place	915,510	12,724,999
Borrowings from I&M Bank (Uganda)	17,042,343	10,937,854
Borrowings from Absa Bank Uganda	9,844,735	-
Borrowings from Ecobank Uganda	9,095,593	-
Borrowings from Build Fund SA	7,762,924	-
Borrowings from MEF Incofin	7,878,121	-
Borrowings from Dry Associates Investment Bank	11,020,158	-
	172,571,410	162,928,991
Current		
Borrowings from Exim Bank	3,719,168	3,513,925
Borrowings from related parties (Note 24)	3,112,313	2,882,052
	6,831,481	6,395,977
Total borrowings	179,402,891	169,324,968
Reconciliation of borrowings:		
At start of year	169,324,968	85,658,414
Interest charged to profit or loss	33,821,068	9,147,907
Foreign exchange (gain)/loss	4,433,504	1,555,372
Cash flows:		
• Operating activities (interest paid)	(33,821,068)	(9,147,907)
• Proceeds from borrowings	151,357,998	165,315,315
• Repayments of borrowings	(145,713,579)	(83,204,133)
At end of year	179,402,891	169,324,968

a) **Borrowings from related parties**

Watu Holdings Limited (Mauritius) and Watu Credit Limited (Kenya)
These non-current borrowings are unsecured at an interest rate of 20% denoted in United States Dollars for a contractual term of 36 months. Cumulatively at 31st December 2023 the Company had received USD 29,545,000 from Watu Holdings Limited and USD 569,201 from Watu Credit Limited.

Shareholders of Watu Holdings Limited
These current borrowings are unsecured at an interest rate of 14% to 20% denoted in United States Dollars for a contractual term of less than 12 months. Cumulatively at 31st December 2023 the Company had received USD 569,201 from the shareholders of Watu Holdings Limited.

16. Borrowings (continued)

b) **Borrowings from other lenders**

I&M Bank (Uganda) Limited
The borrowings from I&M Bank (Uganda) were obtained for a period of 24 months at an interest rate of 21.5% to 22.4% per annum. The loan is denominated in Uganda Shillings and is secured by the following;
- A charge over specific receivables covering up to 125% of the performing loan book being "loans that are less than 120 days in arrears"
- Corporate guarantee of Watu Credit Kenya Ltd for UGX 26,553,496,227
- An Inter lender agreement between Watu Credit Uganda Ltd and Secured Parties and administered by Adili Corporate Services Uganda Limited acting as the security agent.

Untapped Water Limited Uganda
The borrowings from Untapped Water Limited Uganda were obtained on 6th January 2022 for a period of 23 months at an interest rate of 20% per annum. The loan is secured by specific

Mintos Market Place
The borrowings from Mintos Market Place were for a maxmium aggregated value of EUR 16,000,000 and is secured by specific receivables covering 125% of the aggregated borrowings received at an interest rate of 12% to 16% denoted in Euro for a term of 24 months.

Adolf H. Lundin Charitable Foundation
The USD 5,000,000 borrowing from Adolf H. Lundin Charitable Foundation was obtained on 28 June 2022 at an interest rate of 12% denoted in United States Dollars for a term of 36 months.

Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)
The USD 5,000,000 borrowing from FMO was obtained on 8 December 2022 at the USD floating interest rate which is sum of a margin of 8.25% per annum and Term SOFR for a period equal to the length of the interest period and is denominated in United States Dollars for a term of 48 months.

Norsad Capital Limited
The USD 7,500,000 borrowing from Norsad Capital Limited was drawndown on 27 December 2022 and 22 February 2023 at interest rate of 10.0% plus SOFR and is denominated in United States Dollars for a term of 96 months. The loan is secured by the Guarantee and a pledge of the Norsad Motocycle Loan Book (offering security cover of no less than 1.25 times).

Verdant Capital Hybrid Fund
The USD 7,000,000 borrowing from Verdant Capital Hybrid Fund was obtained on 8 August 2022 at interest rate of 13.5% plus SOFR and is denominated in United States Dollars for a term of 60 months.

Absa Bank Uganda Limited
The borrowing from Absa Bank Uganda Limited was obtained on 3 April 2023 for a period of 36 months at an interest rate of 17.0% per annum. The loan is denominated in Uganda Shillings and is secured by the following; 125% of the performing loan book being "loans that are less than 90 days in arrears, a corporate guarantee of Watu Holdings Ltd and accession into the Inter Creditor Agreement.

Ecobank Uganda Limited
The borrowing from Ecobank Uganda Limited was obtained on 7 August 2023 for a period of 18 months at an interest rate of 17.0% per annum. The loan is denominated in Uganda Shillings and secured by the following; 100% of the loan book and first demand credit insurance.

16. Borrowings (continued)

(ii) **Borrowings from other lenders (continued)**

Build Fund SA
The USD 2,000,000 borrowing from Build Fund SA was obtained on 26 September 2023 for a period of 36 months at an interest rate of 11.0% per annum. The loan is denominated in US Dollars and is secured by the following; deed of assignment over recivables/ motorcycle assets financed amounting to 125% of BUILD Fund loan facility and accession into the Inter Creditor Agreement.

MEF Incofin
The USD 2,000,000 borrowing from MEF Incofin was obtained on 29 September 2023 for a period of 20 months at an interest rate of 13.5% per annum. The loan is denominated in US Dollars and is secured by the following; deed of assignment over specific receivables amounting to 125% of loan facility and accession into the Inter Creditor Agreement.

Dry Associates Investment Bank
The borrowings from Dry Associates Investment Bank commenced on 28 April 2023 at an interest rate of 9% to 10% denoted in US Dollars for a minimum term of 6 months and a maximum term of 12 months. The maximum aggregated amount of the borrowings is USD 5,000,000 and are secured by Deed of Assignment against new advances to the Company's clients so that amounts placed into the programme are secured at a ratio of 1 to 1.25.

17. Tangible assets

	Office equipment Shs '000	Furniture and fittings Shs '000	IT equipment Shs '000	Motor vehicles Shs '000	Total Shs '000
Cost					
At start of year	455,901	351,260	1,378,293	711,916	2,897,370
Additions	203,493	109,091	751,908	419,216	1,483,708
Adjustment	-	-	-	-	-
At end of year	659,394	460,351	2,130,201	1,131,132	4,381,078
Depreciation					
At start of year	90,784	83,669	718,177	279,738	1,172,368
Charge for the year	72,413	50,309	526,281	212,849	861,852
At end of year	163,197	133,978	1,244,458	492,587	2,034,220
Net book value					
Year ending 31.12.2023	496,197	326,373	885,743	638,545	2,346,858
Year ending 31.12.2022	377,315	267,591	647,917	432,178	1,725,001

18. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2022: 30%). The movement on the deferred tax account is as follows:

	2023 Shs'000	2022 Shs'000
At start of year	(866,325)	(125,882)
(Credit)/charge to profit or loss (Note 12)	(2,667,957)	(740,443)
At end of year	(3,534,282)	(866,325)

Deferred tax asset in the statement of financial position and deferred tax charge in the statement of profit or loss are attributable to the following items:

	Opening position 2023 Shs'000	Charge to profit or loss Shs'000	Closing position 2023 Shs'000
Property, plant and equipment (cost)	32,014	283,029	315,043
Short term timing differences	552,200	-	552,200
Deferred tax liability	584,214	283,029	867,243
Short term timing differences	(1,450,539)	(2,950,986)	(4,401,525)
Deferred tax asset	(1,450,539)	(2,950,986)	(4,401,525)
Net deferred tax asset	(866,325)	(2,667,957)	(3,534,282)

19. Loans and advances to customers and other assets	**31 December 2023 Shs '000**	**31 December 2022 Shs '000**
Loans and advances		
Gross loans and advances to customers	271,459,258	198,519,891
Accrued interest	10,304,712	6,461,799
Less allowance for loan impairment (note 20)	(8,430,340)	(4,433,535)
Less written-off loans	(6,130,876)	(949,979)
Net loans and advances	267,202,754	199,598,176
Other assets	1,727,162	1,378,208
Total loans and advances to customers and other assets	268,929,916	200,976,384

20. Allowance for loan impairment

The impairment provision determined by the Expected Credit Loss (ECL) model under IFRS 9 increased from Shs 4,433,535,000 to Shs 8,146,866,000 over the fiscal year. This rise is attributed to changes in the gross loan portfolio, including higher default rates and updated macroeconomic assumptions. The gross loan portfolio expanded by 37%, necessitating an adjustment in provisions to reflect the increased credit risk. The ECL model continues to provide a robust framework for assessing impairment.

At start of the year	4,433,535	2,256,735
Impairment charge for the year	3,996,805	2,176,800
At end of the year	8,430,340	4,433,535

21. Cash and cash equivalents

Cash at bank and in hand	2,371,753	20,255,651

For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the above.

22. Trade and other payables

Trade payables	4,077,790	3,056,633
Other payables	2,975,252	2,062,770
Payables to related parties (Note 24)	620,267	452,517
Total trade and other payables	7,673,309	5,571,920

23. Deferred Income

Unearned commission income (note 5) is recognized as deferred income in the statement of financial position.

Deferred income recognised in less than 12 months	7,793,277	7,223,261
Deferred income recognised in more than 12 months	1,702,983	1,737,286
Total deferred income	9,496,260	8,960,547

24. Related party transactions and balances	31 December 2023 Shs '000	31 December 2023 Shs '000
i) Borrowings from related parties (Note 16)		
• **Watu Holdings Limited (Mauritius)**		
At start of year	44,045,495	28,760,327
Advances	39,565,572	15,285,168
Repayments	(62,709,433)	-
FX (gain) / loss	690,074	-
At end of year	21,591,708	44,045,495
• **Watu Credit Limited (Kenya)**		
At start of year	12,651,528	8,358,656
Advances	443,491	4,292,872
Repayments	(13,095,019)	-
At end of year	-	12,651,528
• **Shareholders of Watu Holdings Limited**		
At start of year	2,882,052	7,606,344
Advances	748,219	-
Repayments	(617,428)	(4,724,292)
FX (gain) / loss	99,470	-
At end of year	3,112,313	2,882,052
Total borrowings from related parties and shareholders	24,704,021	59,579,075
ii) Payable to related party (Note 22)		
AK Trading Uganda (SMC) Limited		
At start of year	452,517	1,230,215
(Repayments)/advances	167,750	(777,698)
At end of year	620,267	452,517

25. Intangible assets

	31 December 2023 Shs '000	31 December 2022 Shs '000
Cost		
At start of theyear	-	-
Additions	2,973,977	-
At end of the year	2,973,977	-
Amortisation		
At start of theyear	-	-
Charge for the year	273,340	-
At end of the year	273,340	-
Net book value	2,700,637	-

26. Derivative financial instruments

During the period ended 31 December 2023, the Company entered into a financial arrangement to manage its exposure to foreign exchange rate risks through the purchase of currency options.

27. Events after year end

There have been no material adjusting events subsequent to the period end that required adjustment to or disclosures in this report.

28. Currency

The financial statements are presented in Uganda shillings and are rounded off to the nearest one thousand Shs.

29. Contingent liabilities

The Company is exposed to various contingent liabilities in the normal course of business. The directors evaluate the status of these exposures regularly based on advice from the legal advisors to assess the probability of the Company incurring related liabilities. However, provisions are only made in the financial statements where, based on the Directors' evaluation, a present obligation exists. The directors review the rest of the exposures and consider disclosure of those where a present obligation has not been established but the amounts involved are significant.